This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

PFLEIDERER GRAJEWO GROUP

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2012

CONTENTS

MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. of 2009, No. 33, item 259), the Pfleiderer Grajewo Management Board represents that to the best of its knowledge the annual consolidated financial statements for the year ended December 31st 2012 and the comparative data have been prepared in compliance with the applicable accounting policies and give a fair and clear view of the Pfleiderer Grajewo Group's financial position and financial performance, and that the annual Directors' Report on the Group's operations gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

The Pfleiderer Grajewo Management Board represents that the audit firm who audited the annual consolidated financial statements was appointed in compliance with applicable laws, and that both the audit firm and the key certified auditor who performed the audit meet the conditions required to issue an objective and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable laws and professional standards.

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

Grajewo, April 30th 2013

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Statement of comprehensive income

	Note	Jan 1– Dec 31 2012	Jan 1– Dec 31 2012	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011	Jan 1– Dec 31 2011	Jan 1– Dec 31 2011
		Total Group	Continuing operations	Discontinued operations	Total Group	Continuing operations	Discontinued operations
Revenue	1	1,789,943	1,432,282	357,661	1,725,231	1,405,537	319,694
Cost of sales	8	(1,431,847)	(1,204,875)	(226,972)	(1,382,705)	(1,146,494)	(236,211)
Gross profit		**358,096**	**227,407**	**130,689**	**342,526**	**259,043**	**83,483**
Other income	4	19,999	18,665	1,334	5,511	3,850	1,661
Distribution costs	8	(111,356)	(96,123)	(15,233)	(106,086)	(88,684)	(17,402)
Administrative expenses	8	(94,139)	(65,596)	(28,543)	(84,509)	(56,774)	(27,735)
Other expenses	5	(19,363)	(7,764)	(11,599)	(21,237)	(6,165)	(15,072)
Operating profit		**153,237**	**76,589**	**76,648**	**136,205**	**111,270**	**24,935**
Finance income		32,104	32,104	0	39,799	39,799	0
Finance costs		(124,754)	(90,372)	(34,382)	(137,257)	(92,223)	(45,034)
Net finance costs	7	(92,650)	(58,268)	(34,382)	(97,458)	(52,424)	(45,034)
Profit before tax		**60,587**	**18,321**	**42,266**	**38,747**	**58,846**	**(20,099)**
Income tax expense	9	(24,302)	(1,242)	(23,060)	(17,012)	(11,199)	(5,813)
Net profit/(loss)		**36,285**	**17,079**	**19,206**	**21,735**	**47,647**	**(25,912)**
Net profit/(loss) attributable to:							
Owners of the parent		49,815	11,779	38,036	33,209	38,904	(5,695)
Non-controlling interests		(13,530)	5,300	(18,830)	(11,474)	8,743	(20,217)
Net profit/(loss)		**36,285**	**17,079**	**19,206**	**21,735**	**47,647**	**(25,912)**

The notes attached to the consolidated financial statements constitute their integral part.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

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)
Net profit	**36,285**	**17,079**	**19,206**	**21,735**	**47,647**	**(25,912)**
Other comprehensive income						
Exchange differences on translating foreign operations	(9,590)			11,991		
Exchange differences on net investments in subsidiaries	(8,011)			19,531		
Effective portion of loss on fair-value measurement of hedging instruments, including corporate income tax	0			(589)		
Total other comprehensive income for the period	**(17,601)**			**30,933**		
Total comprehensive income for the period	**18,684**			**52,668**		
Total comprehensive income for the period attributable to:						
Owners of the parent	32,351			62,140		
Non-controlling interests	(13,667)			(9,472)		
Total comprehensive income for the period	**18,684**			**52,668**		

The notes attached to the consolidated financial statements constitute their integral part.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Statement of changes in equity

Financial year ended December 31st 2012

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Exchange differences on net investments in subsidiaries	Cash flow hedges	Retained earnings	Total	Non-controlling interests	Total
As at Jan 1 2012	**16,376**	**289,806**	**155,005**	**619**	**(4,839)**	**4,182**	**0**	**33,892**	**495,041**	**71,440**	**566,481**
Comprehensive income for the period											
Net profit/(loss)	0	0	0	0	0	0	0	49,815	49,815	(13,530)	36,285
Other comprehensive income											
Exchange differences on translating foreign operations	0	0	0	0	(9,453)	0	0	0	(9,453)	(137)	(9,590)
Exchange differences on net investments in subsidiaries	0	0	0	0	0	(8,011)	0	0	(8,011)	0	(8,011)
Total other comprehensive income	*0*	*0*	*0*	*0*	*(9,453)*	*(8,011)*	*0*	*0*	*(17,464)*	*(137)*	*(17,601)*
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**(9,453)**	**(8,011)**	**0**	**49,815**	**32,351**	**(13,667)**	**18,684**
Transactions with owners recognised in equity											
Transfer of part of 2011 net profit to statutory reserve funds	0	0	40,801	0	0	0	0	(40,801)	0	0	0
Transactions with owners recognised in equity	0	0	40,801	0	0	0	0	(40,801)	0	0	0
As at Dec 31 2012	**16,376**	**289,806**	**195,806**	**619**	**(14,292)**	**(3,829)**	**0**	**42,906**	**527,392**	**57,773**	**585,165**

The notes attached to the consolidated financial statements constitute their integral part.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Financial year ended December 31st 2011

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Exchange differences on net investments in subsidiaries	Cash flow hedges	Retained earnings/	Total	Non-controlling interests	Total
As at Jan 1 2011	**16 376**	**289 806**	**153 711**	**619**	**(14 829)**	**(15 349)**	**589**	**1 978**	**432 901**	**63 273**	**496 174**
Comprehensive income for the period											
Net profit/loss	0	0	0	0	0	0	0	33,208	33,208	(11,473)	21,735
Other comprehensive income											
Exchange differences on translating foreign operations	0	0	0	0	9,990	0	0	0	9,990	2,001	11,991
Exchange differences on net investments in subsidiaries	0	0	0	0	0	19,531	0	0	19,531	0	19,531
Effective portion of gains on fair-value measurement of hedging instruments	0	0	0	0	0	0	(589)	0	(589)		(589)
Total other comprehensive income	*0*	*0*	*0*	*0*	*9,990*	*19,531*	*(589)*	*0*	*28,932*	*2,001*	*30,933*
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**9,990**	**19,531**	**(589)**	**33,208**	**62,140**	**(9,472)**	**52,668**
Transactions with owners recognised in equity											
Issue of shares in Pfleiderer MDF	0	0	0	0	0	0	0	0	0	17,639	17,639
Transfer of part of 2010 net profit to statutory reserve funds	0	0	1,294	0	0	0	0	(1,294)	0	0	0
Transactions with owners recognised in equity	0	0	1,294	0	0	0	0	(1,294)	0	17,639	17,639
As at Dec 31 2011	**16,376**	**289,806**	**155,005**	**619**	**(4,839)**	**4,182**	**0**	**33,892**	**495,041**	**71,440**	**566,481**

The notes attached to the consolidated financial statements constitute their integral part.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Statement of financial position

	Note	Dec 31 2012	Dec 31 2011
Assets			
Property, plant and equipment	10	583,660	1,153,850
Intangible assets	11	2,218	2,539
Goodwill	3	107,829	107,829
Investments in jointly controlled entities	12	117	117
Other non-current financial assets	13	10	10
Investment property	14	4,300	4,300
Deferred tax asset	15	12,184	13,447
Prepayments for property, plant and equipment	10	5,426	207,697
Government grants receivable	16	14,443	27,165
Non-current assets		**730,187**	**1,516,954**
Inventories	17	174,803	241,830
Income tax receivable		261	111
Trade and other receivables	18	70,356	157,489
Cash and cash equivalents	31	17,518	19,586
Disposal group	19	813,907	0
Current assets		**1,076,845**	**419,016**
Total assets		**1,807,032**	**1,935,970**
Equity and liabilities			
Equity	20		
Share capital		16,376	16,376
Share premium		289,806	289,806
Statutory reserve funds		195,806	155,005
Revaluation reserve		619	619
Exchange differences on translating foreign operations		(14,292)	(4,839)
Exchange differences on net investments in subsidiaries		(3,829)	4,182
Retained earnings		42,906	33,892
Equity (attributable to owners of the parent)		**527,392**	**495,041**
Non-controlling interests		**57,773**	**71,440**
Total equity		**585,165**	**566,481**
Liabilities			
Borrowings and other debt instruments	22	182,650	880,934
Finance lease liabilities		0	46
Employee benefit obligations	23	7,111	6,584
Provisions	24	739	634
Deferred tax liabilities	15	8,245	12,827
Deferred income from government grants	16	27,233	40,484
Non-current liabilities		**225,978**	**941,509**
Borrowings and other debt instruments	22	528,448	137,760
Finance lease liabilities		0	116
Income tax payable		1,136	188
Trade and other payables	25	197,112	266,922
Employee benefit obligations	23	18,736	21,118
Liabilities related to disposal group	19	249,309	0
Deferred income from government grants	16	1,148	1,876
Current liabilities		**995,889**	**427,980**
Total liabilities		**1,221,867**	**1,369,489**
Total equity and liabilities		**1,807,032**	**1,935,970**

The notes attached to the consolidated financial statements constitute their integral part.

(all amounts in PLN thousand)

Statement of cash flows

	Note	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Cash flows from operating activities			
Net profit for the reporting year		**36,285**	**21,735**
Adjustments		214,103	159,746
Depreciation and amortisation	8	76,946	77,523
Foreign exchange gains/losses		(9,129)	9,853
Interest for the period	7	89,877	96,604
Profit/loss on investing activities		429	(374)
Income tax disclosed in profit or loss of the period		24,302	17,012
Deferred income tax recognised in equity	15	(1,879)	4,580
Change in trade and other receivables		22,792	5,568
Change in inventories		21,115	(60,343)
Change in trade and other payables	31	(11,138)	18,203
Change in employee benefit obligations		7	4,668
Change in provisions		105	(6)
Amortisation of government grants	16	(1,871)	(1,188)
Result on forward contracts	7	767	(2,665)
Change in exchange differences on translating foreign operations		1,427	(9,689)
Other adjustments		353	0
Cash flows from operating activities		**250,388**	**181,481**
Interest received		217	432
Income tax paid		(22,547)	(6,509)
Net cash from operating activities		**228,058**	**175,404**
Cash flows from investing activities			
Disposal of non-current assets		(147)	440
Other expenses on acquisition of financial assets		0	(41)
Acquisition of intangible assets and property, plant and equipment		(27,576)	(34,001)
Net cash from investing activities		**(27,723)**	**(33,602)**
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		(129,434)	(62,511)
Repayment of borrowings and other debt instruments in current account		22,310	(17,248)
Increase in borrowings and other debt instruments		0	22,229
Interest paid		(85,522)	(84,554)
Net cash from financing activities		**(192,646)**	**(142,084)**
Change in cash		7,689	(282)
Cash at beginning of the period		19,586	19,868
Cash at end of the period	31	**27,275**	**19,586**
Cash and cash equivalents for continued operations		**17 518**	**19 586**
Cash and cash equivalents included in disposal group		**9 757**	**0**

The notes attached to the consolidated financial statements constitute their integral part.

Notes to the annual consolidated financial statements including significant accounting policies

1. General information

The parent entity of the Pfleiderer Grajewo Group (Parent) is a listed joint-stock company registered in Poland.

The parent, 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 Company's Management Board received the decision of the District Court of Białystok on entering the Company's new name, Pfleiderer Grajewo S.A., in the National Court Register.

The Parent's registered office is located at ul. Wiórowa 1, Grajewo, Poland.
In accordance with the Polish Classification of Business Activities, the Parent's business is registered under No. 1621 Z.

These annual consolidated financial statements of the Pfleiderer Grajewo Group for the period January 1st – December 31st 2012 were approved by the Parent's Management Board on April 30th 2013.

2. Structure of the Group

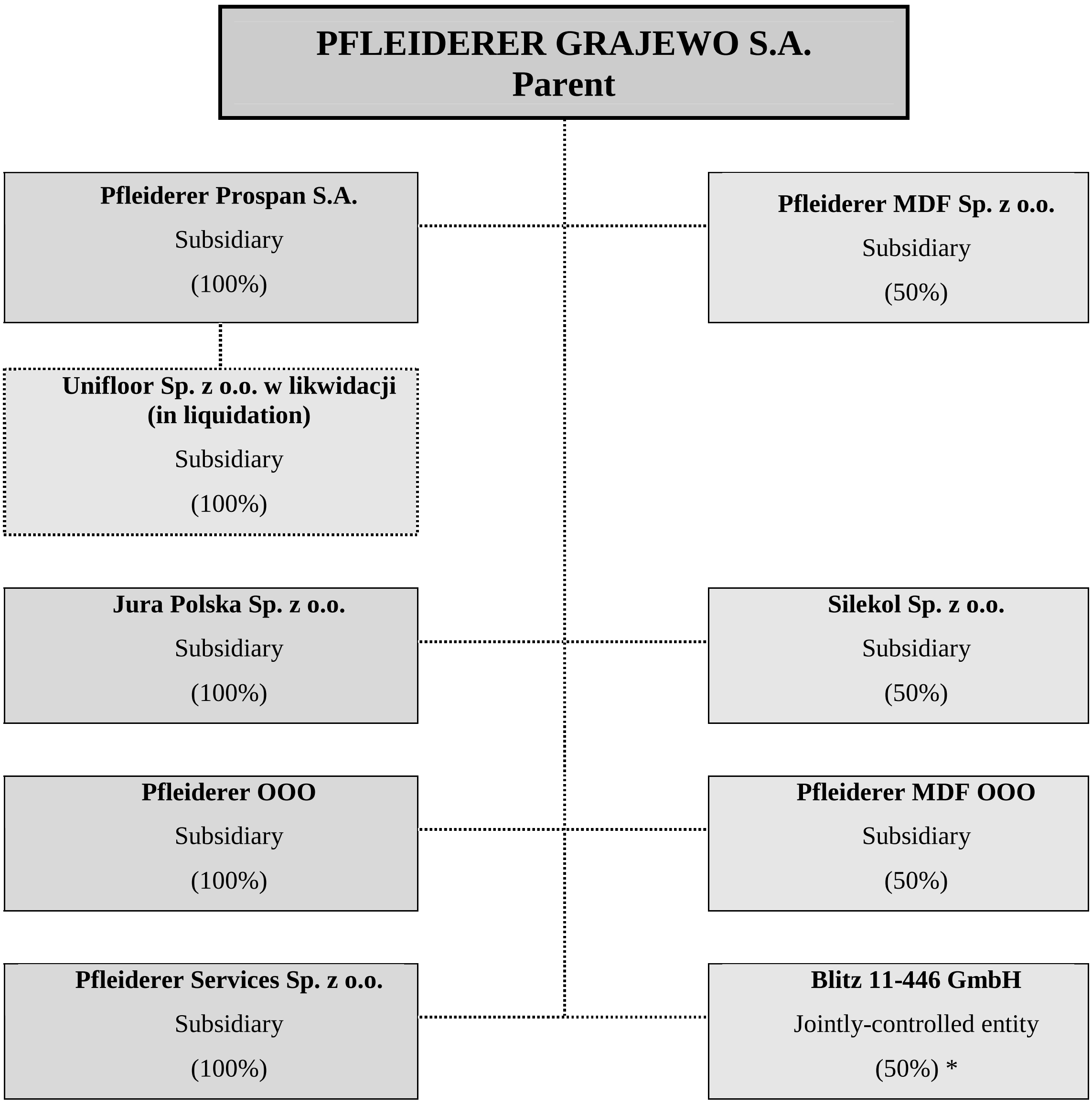
Pfleiderer Grajewo S.A. is the parent of the following companies:

- Pfleiderer Prospan S.A. of Wieruszów,
- Pfleiderer OOO of Novgorod (Russia),
- Pfleiderer MDF OOO of Novgorod (Russia),
- Silekol Sp. z o.o. of Kędzierzyn-Koźle,
- Pfleiderer MDF Sp. z o.o. of Grajewo,
- Jura Polska Sp. z o.o. of Grajewo,
- Unifloor Sp. z o.o. of Wieruszów (in liquidation), and
- Pfleiderer Services Sp. z o.o. of Grajewo

Jointly-controlled entity

- Blitz 11-446 GmbH of Neumarkt.

Structure of the Group as at December 31st 2012:



These annual consolidated financial statements of the Pfleiderer Grajewo Group comprise the financial data of Pfleiderer Grajewo S.A., the Parent, and its subsidiaries.

Pfleiderer Grajewo S.A. (Parent) holds 50% of the shares and votes in subsidiaries Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Pfleiderer MDF OOO, but it continues to exercise control over these entities 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 entities.

* The interest in the company, which is jointly-controlled by the Group, is accounted for in the consolidated financial statements with the equity method.

Changes in the Group's structure in the reporting period

On December 13th 2012, the Parent acquired from the European Bank for Reconstruction and

(all amounts in PLN thousand)

Development ("EBRD") an equity interest in Pfleiderer OOO in Russia, a subsidiary of Pfleiderer Grajewo S.A., representing 15.81% of the company's share capital. The price paid for the equity interest was EUR 9,553,187.18 (PLN 39,098,329.17). Due to previous contractual arrangements with EBRD the Group considered Pfleiderer OOO as 100% subsidiary. The shares owned by EBRD were considered as liabilities in accordance with anticipated acquisition method – as if the non-controlling shareholders had sold its shares to the Group already.

Subsidiaries of the Pfleiderer Grajewo Group

Pfleiderer Prospan S.A. – a joint-stock company entered in the commercial register maintained by the District Court of Kalisz under No. RHB1754 on September 23rd 1997 as Zakłady Płyt Wiórowych Prospan S.A. On September 17th 2001, the company was registered with the District Court of Łódź-Śródmieście in Łódź, XX Division of the National Court Register under entry 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 Interregional Inspection No. 3 for the Novgorod District at the Ministry of Duties and Taxes of the Russian Federation.

Uniform Registration Number:	1035301200164
Tax Identification Number (NIP):	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 Interregional Inspection No. 3 for the Novgorod Region at the Ministry of Customs 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. – 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 30 K, 47-220 Kędzierzyn-Koźle, Poland

Pfleiderer MDF Sp. z o.o. – 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 1, 19-203 Grajewo, Poland

Jura Polska Sp. z o.o. – entered in the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under 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

(all amounts in PLN thousand)

Unifloor Sp. z o.o. w likwidacji (in liquidation) – entered in the National Court Register by the District Court of Białystok, Commercial Division of the National Court Register, under 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. of Grajewo – 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

Jointly-controlled entity

Blitz 11-446 GmbH of Neumarkt – entered in the Commercial Register by the Court in Nuremberg, under No. HRB 28 166.

HRB Registry Number:	28 166
Tax Identification Number:	201/116/21366
Registered office:	Ingolstädter Strasse 51, Neumarkt, Germany

The business of Pfleiderer Grajewo S.A., the Parent, consists in:

- manufacture and veneering of wood and wood-based products,
- paper finishing,
- trade at home and abroad.

Business profiles of the other companies of the Pfleiderer Grajewo Group:

Pfleiderer Prospan S.A.

- manufacture of melamine-faced and raw chipboards and other wood and wood-based products,
- paper finishing,
- trade at home and abroad,
- generation and distribution of heat.

Pfleiderer OOO

- manufacture of raw and melamine-faced chipboards, other materials and wood products
- production of materials from wood waste
- wholesale of own and third-party products.

Pfleiderer MDF OOO

The company constructed a new production plant.

Silekol Sp. z o.o.

- manufacture of dyes and pigments,

- manufacture of other organic and inorganic chemicals,
- manufacture of paints and varnishes,
- manufacture of glues and gelatines.

Pfleiderer MDF Sp. z o.o.

- sale and intermediation in the sale of raw and melamine-faced chipboards, films and foils,
- veneering of chipboards,
- manufacture of melamine-faced and raw chipboards and other wood-based materials.

Jura Polska Sp. z o.o.

- transport,
- road transport of goods with specialised vehicles,
- road transport of goods with universal vehicles,
- lease of trucks,
- wholesale of building materials and sanitary fixtures and fittings.

Unifloor Sp. z o.o. w likwidacji (in liquidation)

The company is currently in liquidation.

Pfleiderer Services Sp. z o.o.

The company has suspended its operations.

Jointly-controlled entity

Blitz 11-446 GmbH

- exports, in particular to Russia and Eastern Europe,
- provision of investment-related services,
- provision of services related to exports of production equipment.

(all amounts in PLN thousand)

3. Composition of the Parent's Management Board and the Supervisory Board and changes in the reporting period

As at the end of the reporting period, the composition of the Pfleiderer Grajewo Management Board was as follows:

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

Composition of the Supervisory Board as at December 31st 2012:

1. Michael Wolff	Chairman of the Supervisory Board
2. Gerd Hammerschmidt	Member
3. Jan Woźniak	Member
4. Hans-Joachim Ziems	Member
5. Hans-Kurt von Werder	Member

On March 7th 2012, Mr Hans-Joachim resigned from the position of Member of the Parent's Supervisory Board with effect from April 10th 2012.

In accordance with a resolution of the Extraordinary General Meeting, on April 10th 2012, Mr Jochen Schapka was appointed Member of the Parent's Supervisory Board.

On September 28th, Mr Hans H. Overdiek resigned from the position of Member of the Supervisory Board of Pfleiderer Grajewo S.A. with effect from October 31st 2012.

In accordance with a resolution of the Extraordinary General Meeting, on November 7th 2012, Mr Gerd Hammerschmidt was appointed Member of the Parent's Supervisory Board.

On February 12th 2013, Mr Hans-Kurt von Werder resigned from the position of Member of the Parent's Supervisory Board, effective from February 26th 2013.

In accordance with a resolution of the Extraordinary General Meeting, on February 26th 2013, Mr Richard Mayer was appointed Member of the Parent's Supervisory Board.

4. Periods covered by the consolidated financial statements and comparative data

These annual consolidated financial statements were prepared for the year ended December 31st 2012, while the comparative financial data and notes relate to the year ended December 31st 2011.

These annual consolidated financial statements for the year ended December 31st 2012 and the comparative data comprise the financial data of Pfleiderer Grajewo S.A., the Parent, and of its subsidiaries.

5. Basis of preparation

a) Statement of compliance

These annual consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union ("the EU IFRS").

The EU IFRS include all the International Accounting Standards, International Financial Reporting Standards, and their Interpretations, except for those Standards and Interpretations, discussed below, which are still to be endorsed by the European Union and Standards and Interpretations which have been endorsed by the European Union but have not come into force yet.

A number of new Standards, amendments to Standards and Interpretations not yet effective for annual periods ending on 31 December 2012 and have not been applied in the consolidated financial statements. Group intends to use them, for the periods for which they are applicable for the first time.

The Group estimates that the below standards, interpretations and amendments to standards would not have had any material effect on the consolidated financial statements if they had been applied by Group as at the balance-sheet date, except for **IFRS 9 Financial Instruments**, which will apply to the financial statements of the Group for 2015 and could materially affect the classification and measurement of financial assets. The Group does not plan to apply the standard earlier, and the effect of its application has not been estimated.

Standards and interpretations adopted by the IASB and approved by the EU

- Amendments to IAS 1 **Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income** (effective for annual periods beginning on or after July 1st 2012),
- IAS 19 (2011) **Employee Benefits** (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 12 **Taxes – Deferred Tax: Recovery of Underlying Assets** (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IFRS 7**Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities** (effective for annual periods beginning on or after January 1st 2013),
- IFRS 10 **Consolidated Financial Statements** (effective for annual periods beginning on or after January 1st 2014),
- IFRS 11 **Joint Arrangements** (effective for annual periods beginning on or after January 1st 2014),
- IFRS 12 **Disclosure of Interests in Other Entities** (effective for annual periods beginning on or after January 1st 2014),
- IFRS 13 **Fair Value Measurement** (effective for annual periods beginning on or after January 1st 2013),
- IAS 27 (2011) **Separate Financial Statements** (effective for annual periods beginning on or after January 1st 2014),
- IAS 28 (2011) **Investments in Associates and Joint Ventures** (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 32 **Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities** (effective for annual periods beginning on or after January 1st 2014),

Standards and interpretations adopted by the IASB and pending endorsement by the EU as at December 31st 2012

- Amendments to International Financial Reporting Standards 2009-2011 (effective for annual periods beginning on or after January 1st 2013),
- Amendments to **IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Agreements, and IFRS 12 Disclosure of Interests in Other Entities** (effective for annual periods beginning on or after January 1st 2013),
- IFRS 9 **Financial Instruments** (2009) (effective for annual periods beginning on or after January 1st 2015),
- Amendments to IFRS 9 **Financial Instruments** (2010) (effective for annual periods beginning on or after January 1st 2015),
- Amendments to IFRS 9 **Financial Instruments**and IFRS 7 **Financial Instruments: Disclosures** (effective for annual periods beginning on or after January 1st 2015).

b) Basis of accounting

These annual consolidated financial statements were prepared in compliance with the historical cost convention, with the exception of financial derivatives and investment property which were measured at fair value.

c) Functional and presentation currency

All figures disclosed in these annual consolidated financial statements are expressed in the złoty (PLN) and rounded to the nearest thousand, unless indicated otherwise.

The functional currency of the Parent is the Polish złoty (PLN).

d) Estimates and judgements

The preparation of financial statements in accordance with the EU IFRS requires the Management Board to make certain estimates and assumptions which affect the values disclosed in the financial statements and the related notes. While the assumptions and estimates used are based on the Management Board's best knowledge of current actions, operations and events, the actual results may differ from projections (please refer to note 34).

The estimates and the related assumptions are subject to review on an ongoing basis. Any change in accounting estimates is recognised in the period in which such change occurred or in current and future periods if the performed estimate change relates to both the current and future periods.

6. Significant accounting policies

The Group's accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the parent.

Control is the power to govern, directly or indirectly, the financial and operating policies of a given entity in order to obtain benefits from its activities. The degree of control is assessed based on the existing and potential voting rights that are currently exercisable.

Financial statements of subsidiaries are consolidated from the date that control commences until to the date the control ceases.

(ii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or available-for-sale financial asset depending on the level of influence retained.

(iii) Investments in jointly-controlled entities

Interests in joint ventures are investments jointly controlled by the Group. It is assumed that the Group has joint control if strategic financial and operating decisions require unanimous consent of the parties sharing control. Investments in jointly-controlled entities are accounted for initially at cost and subsequently under the equity method, based on financial data derived from their financial statements prepared as at the end of the same reporting period as the separate financial statements of the parent, using the same accounting policies with respect to similar transactions and other events in comparative periods.

(all amounts in PLN thousand)

The consolidated financial statements include the Group's share in profits and losses and other comprehensive income (after adjustments to align the accounting policies), from the date that joint control commences until the date that joint control ceases. When the Group's share in losses exceeds the value of its interest in a jointly-controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to zero. Further losses are not recognised, except for losses resulting from obligations contracted by the Group or from payments made on behalf of the jointly controlled entity.

(iii) Consolidation adjustments

Balances of intra-Group settlements among the Group's entities, transactions between the Group's entities and all related unrealised gains or losses, as well as the Group's income or expenses are eliminated while preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currencies

(i) Transactions in foreign currencies

Any transaction expressed in a foreign currency is translated to the respective functional currencies of Group entities at the exchange rate at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated as at the reporting date at the exchange rate for a given currency for that date. Non-monetary assets and liabilities valued at historical cost in foreign currencies are translated at the exchange rate at the transaction date.

Foreign currency differences resulting from retranslation are recognised in profit or loss of the period except for foreign currency differences arising from retranslation of a qualifying cash-flow hedge to the extent the hedge is effective and foreign currency translation differences on net investments in subsidiaries.

	Exchange rates used to translate items of the statement of financial position			Exchange rates used to translate items of the statement of comprehensive income	
	Dec 31 2012	**Dec 31 2011**		**31.12.2012**	**31.12.2011**
EUR	4.0882	4.4168	EUR	4,1850	4,1189
USD	3.0996	3.4174	USD	3,2565	2,9629
GBP	5.0119	5.2691	GBP	5,1591	4,7454
RUB	0.1017	0.1061	RUB	0,1048	0,1007

(ii) Translation of foreign operations

As at the reporting date, assets and liabilities of foreign subsidiaries are translated to zloty at the exchange rate at the reporting date. Income and expenses are translated at the exchange rate at the dates of the transactions. The related foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity as a separate item. However, if the foreign operation is not-wholly owned subsidiary, then the relevant portion of the translation difference is allocated to non-controlling interests. At the time of disposal of a foreign entity in a way, that control is lost, any accumulated currency-translation differences are transferred to profit or loss as part of the gain or loss on disposal.

(iii) Net investments in foreign operations

Foreign currency differences relating to monetary item receivable or liability from a foreign operation, whose settlement is neither planned nor probable in the foreseeable future, are considered to form part of net investments in foreign operation and are recognised in other comprehensive income and presented in translation reserve in equity.

c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise loans and receivables, as well as liabilities measured at amortised cost.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised from the statement of financial position if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised from the statement of financial position if the Group's obligations specified in the contract expire or are discharged or cancelled.

The Group may transfer financial asset in a way that part of it will not be derecognised. If the Group transfers financial asset in a way that it neither retains nor transfers substantially all the risks and rewards of ownership but it retains control of the financial asset the Group continues to recognise a financial asset to the extent of its continuing involvement in it.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially carried at fair value plus directly attributable transaction costs, and subsequently measured at amortised cost, using the effective interest rate method, less any accumulated impairment losses.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted using the market interest rate as at the date of the statement of financial position.

Loans and receivables include trade and other receivables, as well as cash and cash equivalents.

Cash and cash equivalents comprise cash in hand and demand deposits at banks. The cash and cash equivalents balance presented in the statement of cash flows comprise the abovementioned cash and cash equivalents less the overdrafts representing an integral part of cash management at the Company.

Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented in the fair value reserve in equity. When investment is derecognised, he gain or loss accumulated in equity is reclassified to profit or loss. Investments in equity instruments which are not listed on an active market are stated at cost less any accumulated impairment losses.

Available for sale financial assets include other non-current financial assets.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value less any directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised on the trade date, which is the date that Group becomes a party to the contractual provisions of the instrument.

The Group's financial liabilities measured at amortised cost comprise loans and borrowings, trade and other payables.

The fair value for disclosure purposes is determined based on the present value of future cash flows from repayment of capital and interest, discounted using the market interest rate as at the date of the statement of financial position.

(ii) Derivative financial instruments

The Group uses financial derivatives, mainly forward contracts to hedge its currency-exchange risk exposures related to its operating, financing or investing activities.

At the time of initial recognition, financial derivatives are recognised at fair value; any attributable transaction costs are recognised in profit or loss as incurred; thereafter they are measured at fair value. Gains and losses on measurement at fair value are recognised in profit or loss of the period. However, if financial derivatives are classified as hedging instruments, the recognition of gains or losses on remeasurement to fair value depends on the type of the item hedged with such derivatives.

At inception, the Group formally documents the relationship between the hedging instrument and the hedged item. The documentation includes the risk management objective and a strategy for undertaking the hedge, as well as methods to be used by the Group to assess the hedge effectiveness.

The Group make an assessment, both at inception and in subsequent periods, whether it is justified to expect that the hedging instruments will remain "highly effective" in offsetting changes in fair value or cash flows of the respective hedged items attributable to the hedged risk, during the entire period for which the hedge was undertaken, as well as whether actual results are within a range of 80-125%. Cash flow hedges are applied for highly probable forecast transactions bearing risk of changes in cash flows whose effects would be recognised in profit or loss of the period.

The fair value of a currency forward is estimated by discounting the difference between the transaction price and the current forward rate for the period ending on the contract execution date, applying a risk-free rate (based on treasury bills).

Cash-flow hedges

If a financial derivative is designated to hedge volatility in cash flows related to a specific risk connected with a recognised asset, liability or a highly probable forecast transaction which could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as a separate hedging reserve in equity. Gains or losses previously recognised in other comprehensive income are transferred to profit or loss in the same period and under the same item in which hedged cash flows are recognised in the statement of comprehensive income. The ineffective portion of changes in fair value of the derivative instrument is recognised immediately in profit or loss.

If a hedging instrument no longer meets the criteria for hedge accounting, it expires or is sold, terminated or exercised, or its designation is changed, the Group ceases to apply hedge accounting prospectively. If the forecast transaction is not to be effected, the gains or losses previously recognised in the statement of comprehensive income are immediately recognised in profit or loss. Otherwise, amounts previously recognised in the statement of comprehensive income are recognised in profit or loss in the same period or periods in which the hedged transaction affect profit or loss.

d) Property, plant and equipment

(i) Owned property, plant and equipment

Property, plant and equipment are recognised in the books at acquisition or production cost, less accumulated depreciation and any accumulated impairment losses.

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, less any deductible taxes: VAT and excise tax), public charges (in the case of imports), and costs directly related to the acquisition and adaptation of the asset for use, including the cost of transport, loading, unloading and storage. Rebates, discounts and other similar reductions decrease the asset acquisition cost. The production cost of property, plant and equipment or a tangible asset under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset including non-deductible VAT or excise tax until the day on which the asset was available for use in a manner intended by management. The production cost comprises also the estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such obligation exists. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment or a tangible asset under construction.

If a specific item of property, plant and equipment consists of separate and material components with different useful lives, such components are treated as separate items.

Gain or loss on disposal of an item of property, plant or equipment is estimated as a difference between the disposal proceeds and the carrying amount of the item, and is recognised in profit or loss.

(ii) Reclassification to investment property

When the use of a property changes from owner occupied to investment property, it is measured at fair value and reclassified to investment property. Any gain arising on remeasurement is recognised in profit or loss, to the extent that it reverses a previous loss on impairment loss on the specific property. The remaining gains are recognised in other comprehensive income and presented in revaluation reserve in equity. Any losses are recognised as profit or loss.

(iii) Property, plant and equipment used under lease agreements

Lease agreements under which en entity assumes substantially all the risks and benefits resulting from the ownership of the property, plant and equipment, are classified as finance lease agreements.

Upon initial recognition, items of property, plant and equipment acquired under finance lease agreements are measured at the lower of their fair value or present value of the minimum lease payments, and subsequently reduced by depreciation and impairment losses.

Lease agreements under which the lessor retains substantially all risks and benefits resulting from the ownership of the leased asset are classified as operating leases. Property, plant and equipment used under operating lease agreements are not recognized in the statement of financial position.

(iv) Subsequent expenditure

The Group capitalises subsequent expenditure only when it is probable that the Group will obtain future economic benefits associated with the expenditure. Other expenditure is recognised in profit or loss as incurred. Repair and maintenance costs are expensed as incurred.

(v) Depreciation

Items of property, plant and equipment, or substantial and individual elements thereof, are depreciated over their useful lives using the straight-line method, taking into account the residual value. Leased assets under a finance lease are depreciated over the shorter of the lease term and their useful life unless it is reasonable certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The Group has adopted the following useful lives for particular categories of tangible assets:

Buildings	25 to 40 years
Plant and equipment	3 to 25 years
Vehicles	5 to 8 years
Other tangible assets	4 to 8 years

The correctness of the applied useful lives, depreciation methods and residual values of property, plant and equipment is reviewed as at the end of each reporting period and adjusted prospectively, if appropriate.

e) Intangible assets

(i) Goodwill

Any business combination other than combination of companies under common control is accounted for by use of the acquisition method.

Goodwill is recognised initially as:

- the fair value of consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Following the initial recognition, goodwill is recognised at cost less any accumulated impairment losses.

(ii) Other intangible assets

Intangible assets acquired in a separate transaction are recognised at acquisition cost less accumulated amortisation charges and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits to be generated by the asset. Other expenditure is recognised in profit or loss as incurred.

(iv) Depreciation

Intangible assets are amortised with the straight-line method over their useful lives. Goodwill is not amortised; instead it is tested for impairment as at each fiscal year end. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives of intangible assets are as follows:

Licences	2 to 3 years
Computer software	2 years

The correctness of the applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed as at each balance-sheet date and adjusted prospectively, if appropriate.

f) Investment property

Investment property is held to earn rentals and/or for capital appreciation. Investment property is not held for sale as part of normal operations, nor is it used in the manufacturing process, supply of goods and services, or for administrative purposes. Investment property is initially measured at cost, and subsequently at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss.

g) Inventories

Inventories are recognised at the lower of their cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost to complete and estimated costs necessary to make the sale.

The cost of inventory is determined in the following manner:

Materials and merchandise – at acquisition cost; based on the weighted average method.

Finished products and work in progress – cost of direct materials and labour and an appropriate portion of indirect production costs, calculated on the basis of normal production capacity; based on the weighted average method.

h) Impairment losses

(i) Non-derivative financial assets

An impairment loss on a non-derivative financial asset is recognised if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, which may have an adverse impact on future cash flows related to the financial asset and it may be estimated reliably.

The amount of an impairment loss on a financial asset measured at amortised cost is estimated as the difference between the asset's carrying amount recognised in the statement of financial position and the present value of the future cash flows, discounted using the original effective interest rate. Impairment losses on financial assets available for sale are computed by reference to the assets' present fair value.

Each material financial asset is tested for impairment as at each reporting date. Other financial assets are divided into groups with similar credit risk and assessed for impairment collectively.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed if a subsequent increase in the recoverable value can be objectively attributed to an event occurring after the impairment recognition date. In such a case, the amount of the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amount of non-financial assets other than inventories, investment property and deferred tax asset are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable value is estimated. Goodwill is tested annually for impairment at year end.

The recoverable amount of assets of cash-generating units is higher of an asset's fair value less costs to sell and its value in use. Value in use is calculated by discounting present value of estimated future cash flows with a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets which do not generate independent cash flows, value in use is estimated for the assets' smallest identifiable cash-generating unit.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit recognised in the statement of financial position is higher than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets which generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Impairment losses are recognised in profit or loss. Impairment of a cash-generating unit is initially recognised as a decrease in goodwill allocated to that cash-generating unit (a group of cash-generating units), and subsequently as a decrease in the carrying amount of the other assets belonging to that cash-generating unit(a group of cash-generating units) recognised in the statement of financial position on a pro-rata basis.

Impairment losses in respect to goodwill is not reversed. As far as other assets are concerned, at each reporting date impairment losses recognised in prior periods are reviewed to determine if there is any evidence that they no longer exist or have decreased. An impairment loss recognised in prior periods is reversed if the estimates used to determine the asset's recoverable amount have changed. An impairment loss is reversed only up to the carrying amount of the asset (net of amortisation and depreciation) that would have been determined had no impairment loss been recognised.

i) Discontinued operations and disposal groups

Assets and liabilities representing a disposal group, which are expected to generate benefits through sale or distribution rather than through continued use, are classified by the Group as held for sale or distribution, provided that the assets are available for immediate sale in their present condition and the probability of such a transaction is high. Directly before reclassification as held for sale or distribution, the assets (or components of a disposal group) are remeasured in line with the Group's accounting policies. Subsequently, the assets or disposal groups are recognised at the lower of their carrying amount or fair value less cost to sell.
Any impairment loss on a disposal group is allocated first to goodwill, and subsequently as a decrease in the carrying amount of other assets on a pro-rata basis, provided that the loss of goodwill does not affect the value of inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be recognised in accordance with the Group's accounting policies. Impairment on assets initially recognised as held for sale or distribution is charged to profit or loss for the period. This also applies to gains or losses resulting from subsequent change of value. Gains on fair value remeasurement are recognised only up to the amount of previously recognised impairment losses.
Intangible assets and property, plant and equipment classified as assets held for sale or distribution are not amortised or depreciated.

Discontinued operations are understood as Group's operations which were disposed of or classified as held for sale or distribution, constituting:

- a separate major line of business or geographical area of operations,
- a part of a single co-ordinated plan to dispose of a separate major line of business or a geographical area of operations,
- a subsidiary purchased solely for resale.

Operations are classified as discontinued operations following their disposal or once they meet the criteria to be classified as held for disposal. If the operations are classified as discontinued operations, the comparative data in the statement of comprehensive income is restated as if the discontinuation took place at the beginning of the comparative period.

j) Equity

(i) Ordinary shares

Ordinary shares are disclosed under equity. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

(ii) Dividends

Dividends are recognised as liabilities in the period in which the dividend resolution was adopted.

(iii) Non-controlling interests

The Group presents non-controlling interests at their proportionate share of the acquiree's identifiable net assets.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

k) Employee benefits

(i) Defined contribution plan

Under the applicable regulations, the Group is required to withhold and pay contributions for future pension benefits of its employees. According to IAS 19, the benefits form a state plan which is a defined contribution plan. In connection with the above, the Group's liabilities for each period are recognised based on the contributions payable in a given year.

(ii) Other non-current employee benefits - retirement bonuses

In accordance with the remuneration rules, employees of Pfleiderer Grajewo S.A, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Jura Polska Sp. z o.o. are entitled to receive retirement bonus (upon retirement).

The Group's retirement bonus obligations are determined by estimating the amount of future remuneration of the employee at the time of the employee's retirement, and by estimating the amount of the future bonus. Retirement bonuses are discounted to present value. Retirement bonus obligations are recognised pro rata to the employee's expected length of service.

The value of future liabilities is calculated by a qualified actuary using the projected unit cost method. The employee turnover is estimated based on historical data and projections concerning future employment levels.

Any changes between the balances of employee benefit obligations as at the beginning and the end of a reporting period are recognised in profit or loss.

l) Provisions

Provisions are created when the Group has a liability (legal or constructive obligation) resulting from past events and when it is probable that a discharge of this liability would cause an outflow of economic benefits, and the amount of the liability may be reliably estimated. If the effect of time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to present value at pre-tax rates reflecting the current market estimates of the time value of money and risks, if any, related to a specific liability. If the discounting method is applied, an increase in provisions as a result of lapse of time is presented in finance costs.

m) Revenue

(i) Revenue from sales of finished products/merchandise and services

Revenue from sales of finished products/merchandise is recognised at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognised when significant risks and rewards incidental to the ownership of finished products and merchandise have been transferred to the customer, and if the revenue amount may be reliably estimated. The revenue is not recognised if the future economic benefits, determination of the costs incurred, or the possibility of return of finished products/merchandise is highly uncertain, or if the Company is involved in the management of the sold finished products/merchandise on a continuing basis.

Revenue from provision of services includes mainly revenue from transportation services. Revenue from provision of services is recognised in profit or loss in proportion to the stage of completion of a service as at the reporting date. The stage of completion is assessed with reference to surveys of work performed.

(ii) Government grants

A government grant is recognised in the statement of financial position only when there is reasonable assurance that the grant will be received and the Group will comply with any conditions attached to the grant. Grants received as compensation for costs already incurred are recognised as income on a systematic basis in the periods when the costs related to the grants are incurred. Grants received as compensation for costs of assets are recognised in profit or loss on a systematic basis as other income over the useful life of the asset.

In addition to monetary government grants above, the Group recognises government grants in the form of exemption from income tax as tax receivables and deferred income (government grant) related to Special Economic Zone. The government grant is in the form of exemption from income tax until the earlier of the two: use of the investment tax credit (maximum amount calculated on the basis of the regulations applicable to special economic zones) or expiry of the Special Economic Zone. In order to assess the amount of the government grant to be utilised in the following financial years, the Group estimated the total amount of the potential tax payable on the tax-exempt income generated by it from the business conducted in the Special Economic Zone based on the approved budgets for the following financial years. The Group amortises the government grants. For that purpose, the Group compiles a list of the property, plant and equipment (along with the applicable depreciation charges) in the case of which the capital expenditure incurred for such assets in the particular years is taken into account in calculating the amount of the government grants in the period of conducting operations in the special economic zone. Based on the above data, the Group estimates the weighted average depreciation charge for the property, plant and equipment. In the following accounting periods the Group amortises the government grants recognised as deferred income using the weighted average depreciation rate calculated for the property, plant and equipment the acquisition of which served as the basis for establishing the amount of the government grants.

The Group also amortises the government grant asset (tax receivable). The Group reduces the government grant asset by the amount of the government grant utilised in the reporting period, in correspondence with income tax expense (note 16).

n) Payments under operating leases

Payments under operating lease agreements concluded by the Group are recognised in the statement of comprehensive income on a straight-line basis during the lease term.

o) Payments under finance leases

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding lease liability. The finance expense is allocated to each reporting period as to obtain a constant periodic rate of interest on the remaining amount of the lease liability.

p) Finance income and costs

Finance income includes interest income on funds invested by the Group, gains on hedging instruments that are recognised in profit or loss, foreign exchange gains and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised in profit or loss on an accrual basis using the effective interest rate method.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on hedging instruments that are recognised in profit or loss, foreign exchange losses, and financial assets impairment (other than trade receivables), reclassification of net losses previously recognised in other comprehensive income. Interest expense that is not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest rate method.

Foreign exchange gains and losses are posted on net basis as either finance income or finance cost.

q) Corporate income tax

Corporate income tax recognised in the income statement comprises the current and deferred tax. The current and deferred income tax is recognised in profit or loss, unless it relates to business combination, items recognised directly in equity or as other comprehensive income.

The current tax is the expected tax payable or receivable for the year, determined using the tax rates applicable at the reporting date, and including any adjustments of the tax due for the previous years.

The deferred income tax is determined with the use of the balance-sheet liability method in relation to all temporary differences existing as at the reporting date between the tax value of assets and liabilities and their carrying amount recognised in the statement of financial position.

Deferred tax asset is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax asset is recognised in relation to all deductible temporary differences as well as unused tax losses carried forward, in the amount of the probable taxable income which would enable these differences and losses to be used. Carrying amount of a deferred tax asset is reviewed as at each reporting date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of this deferred tax asset would be generated.

Deferred tax asset and deferred tax liability are calculated using tax rates expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) actually or legally in force as at the reporting date.

The measurement of deferred tax reflect the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

r) Earnings/(Loss) per share

The Group presents basic and diluted earnings (loss) per share for ordinary shares. Basic earnings (loss) per share are calculated by dividing the profit (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share is calculated taking into account the profit (loss) attributable to holders of ordinary shares, the average number of ordinary shares, and instruments (if any) with a dilutive effect.

s) Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is internally provided to its chief operating decision makers.

An operating segment is a Group component that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of the operating segments for which financial information can be identified are reviewed regularly by the management to make decisions about resources to be allocated and assess their performance.

Segment results reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly administrative assets of the Company, office expenses and income tax assets and liabilities.

Capital expenditure of a segment includes expenditure on purchase of property, plant and equipment and intangible assets other than goodwill.

Notes to the Annual Consolidated Financial Statements

(all amounts in PLN thousand)

1 Operating segments

The Group comprises the following reporting operating segments to which the Group companies are allocated:

Operating segments	Companies comprising the segment	Business profile
Poland	PFLEIDERER GRAJEWO S.A.	Production of chipboard
	Jura Sp. z o.o.	Transport services – mainly to Polish companies of the Pfleiderer Grajewo Group
	Pfleiderer Prospan S.A.	Production of chipboard
	Unifloor Sp. z o.o.	Production of laminate flooring
	Pfleiderer MDF Sp. z o.o.	Production of thin MDF board
	Silekol Sp. z o.o.	Production of resins and adhesives – mainly for the Group's purposes
Russia	Pfleiderer OOO	Discontinued operations
	Pfleiderer MDF OOO	

Information on geographical segments

Revenue by country of customer's registered office:

Country	Jan 1 – Dec 31 2012	Jan 1 – Dec 31 2011
Poland	929,737	994,481
Russia	407,409	340,882
Germany	148,830	98,572
Lithuania	73,643	74,073
Kazakhstan	49,357	54,303
Belarus	37,973	34,163
Czech Republic	28,136	17,603
Sweden	24,941	14,400
Ukraine	12,470	14,139
Latvia	11,246	11,927
Netherlands	11,127	5,354
Slovakia	8,303	7,449
Azerbaijan	8,093	4,550
Romania	6,712	2,924
Denmark	6,494	7,055
Finland	5,725	6,989
United Kingdom	3,678	7,543
Italy	2,517	705
Moldova	2,341	2,525
Hungary	1,965	2,448
Georgia	1,141	791
Republic of South Africa	1,101	1,391
Other countries	7,004	20,964
Total	1,789,943	1,725,231

(all amounts in PLN thousand)

Products and Services

By product group	Jan 1–Dec 31 2012	% share	Jan 1–Dec 31 2011	% share
Revenue from sales of products	**1,707,015**	**95.4%**	**1,618,043**	**93.8%**
Chipboard	1,135,584	63.4%	1,165,266	67.5%
MDF boards	197,742	11.0%	230,945	13.4%
Glues	215,723	12.1%	150,518	8.7%
Other	157,966	8.8%	71,314	4.1%
Revenue from sales of materials	**5,446**	**0.3%**	**5,347**	**0.3%**
Revenue from sales of merchandise	**50,373**	**2.8%**	**78,211**	**4.5%**
Revenue from rendering of services	**27,109**	**1.5%**	**23,629**	**1.4%**
Total sales	**1,789,943**	**100.0%**	**1,725,231**	**100.0%**

Revenue by countries and products comprise both continuing and discontinued operations.

Key customers

Given the nature of the Group's business and its sales structure, it is not possible to identify key customers. In the financial years ended December 31st 2012 and 2011, none of the customers accounted for more than 10% of the Group's total sales.

Segment information

The Group identifies the following operational reporting segments based on geographical regions (Poland, Russia).

In Q4 of 2012, the Pfleiderer Grajewo Group entered into a conditional agreement with Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., providing for the sale of all shares in Pfleiderer OOO of Russia as well as Pfleiderer MDF OOO's assets. At the same time, under the agreements, the Pfleiderer Grajewo Group will lose control over its subsidiary Pfleiderer MDF OOO. Both companies operate in the same geographical segment. As at December 31st 2012, the Group classified the subsidiaries' assets as held for sale or distribution and their respective liabilities as liabilities related to the assets held for sale or distribution (note 19).

Segments' profit comprises profit generated by each segment, without allocating finance income and costs and income tax, as these items are monitored at the Group level and cannot be allocated. Inter-segment sales are executed on an arm's length basis.

(all amounts in PLN thousand)

Operating segments

The Group continues its business in all operating segments.

	Poland		Russia		Inter-segment eliminations		Total consolidated	
	Continuing operations		discontinued operations					
	2012	2011	2012	2011	2012	2011	2012	2011
Segment's revenue from sales to third-party customers	1,344,049	1,326,806	445,894	398,425	0	0	1,789,943	1,725,231
Revenue from inter-segment transactions	89,000	78,731	766	0	(89,766)	(78,731)		
Total revenue	1,433,049	1,405,537	446,660	398,425	(89,766)	(78,731)	1,789,943	1,725,231
Total costs (1)	(1,356,458)	(1,294,268)	(369,622)	(373,371)	89,374	78,614	(1,636,706)	(1,589,026)
Operating profit/(loss)	76,591	111,269	77,037	25,054	(391)	(117)	153,237	136,205
Finance income/costs							(92,650)	(97,458)
Tax							(24,302)	(17,012)
Net profit/loss							36,285	21,735
Segment's assets	1,597,137	1,716,972	741,805	784,239	(561,873)	(598,385)	1,777,069	1,902,826
including: non-current assets	964,460	1,167,629	0	667,947	(246,456)	(332,069)	718,004	1,503,507
current assets	632,677	549,343	741,805	116,292	(315,417)	(266,316)	1,059,065	399,319
Unallocated assets (2)							29,963	33,144
Total assets							1,807,032	1,935,970
Segment's operating liabilities	252,322	270,516	267,506	91,888	(18,440)	(24,624)	501,388	337,780
Unallocated liabilities (3)							720,479	1,031,709
Capital expenditure								
property, plant and equipment	18,019	14,466	5,555	46,454	0	0	23,574	60,920
Intangible assets	2,280	0	0	817	0	0	2,280	817
Depreciation and amortisation								
Depreciation of property, plant and equipment	(41,523)	(41,605)	(33,403)	(32,645)	(142)	(142)	(75,068)	(74,392)
Amortisation of intangible assets	(1,515)	(2,609)	(363)	(522)	0	0	(1,878)	(3,131)

1. Total costs comprise cost of sales, distribution costs, administrative expenses, and the result on other operating activities.
2. Unallocated assets include cash, income tax receivables and deferred tax assets.
3. Unallocated liabilities include income tax payable, deferred tax liability, borrowings and other debt instruments

(all amounts in PLN thousand)

2 Seasonality of operations

Chipboard sales are subject to seasonal changes, in particular changes related to the seasonal nature of the construction cycle. Sales peak occurs in the second half of the calendar year whereas the lowest sales are generated in the second quarter of the calendar year.

3 Goodwill

Impairment test of cash generating unit containing goodwill

As at December 31st 2012, the Parent's Management Board estimated the recoverable amount of goodwill.

Goodwill was allocated to the cash-generating unit (Pfleiderer Prospan SA). Recoverable amount of cash-generating unit was determined based on a calculation of its value in use, defined with respect to the operations of Pfleiderer Prospan S.A. Such calculation is made using the projected cash-flows adopted in the five-year financial budgets approved by the Management Board. Cash flows extending beyond the period of five years are extrapolated at a 3% growth rate, which does not exceed the average long-term growth rate for the manufacturing sector in Poland.

The main assumptions used to calculate the unit's value in use were as follows:

- Terminal growth rate beyond the five-year period covered by the budget – 3%;
- Discount rate – 9.0%.

The Management Board established the budget assumptions, which form a basis for impairment testing, based on the past results and the Management Board's forecasts of market development. A discount rate was applied to reflect the risks specific to a given operating segment. A rate of return on 10-year government bonds was assumed as the risk-free rate. The projected cash flows were derived from the budgets for the years until 2017 approved by the Management Board. Cash flows for further five years are determined by extrapolating the results for 2017 at a fixed growth rate of 3%.
The recoverable amount of cash generating unit exceeds its carrying amount by approximately PLN 511 million.

Management did not identify any key assumptions, for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount.

4 Other income

	Jan 1– Dec 31 2012	**Jan 1– Dec 31 2011**
Profit on sale of property, plant and equipment	78	374
Reversal of impairment loss on receivables	2,034	300
Compensations and penalties received	527	993
Release of unused accruals and deferred income	1,416	207
Grants	1,871	1,188
Other income	14,073	2,449
Total	**19,999**	**5,511**
Including discontinued operations	1,334	1,661

Other income of PLN 14,073 thousand comprises net proceeds of PLN 11,795 thousand from sale of an item of property, plant and equipment (note 27).

(all amounts in PLN thousand)

5 Other expenses

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Loss on disposal of property, plant and equipment	507	0
Impairment loss on trade receivables	3,947	2,719
Receivables written-off	1,497	168
Damages paid	178	396
Recognition of accruals and deferred income	165	1,637
Expenses related to suspension of construction of the MDF plant in Russia	7,256	8,826
Other expenses	5,813	7,491
Total	**19,363**	**21,237**
Including discontinued operations	11,599	15,072

Other expenses include donations (PLN 676 thousand), non tax-deductible expenses (PLN 1,387 thousand) and legal fees (PLN 724 thousand).

6 Employee benefit expense

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Salaries and wages payable	99,371	90,767
Employee benefits	26,446	23,521
Decrease in length-of-service award obligations	(62)	0
Increase in retirement bonus obligations	489	735
Change in provision for employee claims	105	(6)
Increase in holiday entitlement obligations	588	354
Increase in liabilities related to bonus payment	905	3,086
Total	**127,842**	**118,457**
Including discontinued operations	28,293	24,545

7 Finance income and costs

Disclosed in profit or loss of the period:

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Interest income	31,182	29,260
Gains on forward contracts	851	0
Net foreign exchange gains	0	10,539
Other finance income	71	0
Finance income	32,104	39,799
Interest expense	(121,059)	(125,864)
Net foreign exchange loss	(186)	(5,979)
Loss on forward contracts	(84)	(2,665)
Other finance costs	(3,425)	(2,656)
Finance costs	(124,754)	(137,257)

(all amounts in PLN thousand)

Net finance costs	**(92,650)**	**(97,458)**
Including discontinued operations	(34,382)	(45,034)

The above finance income and costs include the following items of interest income and interest costs related to assets and liabilities:

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Interest income	31,182	29,260
Interest expense	(121,059)	(125,864)
	(89,877)	(96,604)

Recognised in other comprehensive income

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Effective portion of change in fair-value measurement of cash-flow hedging instruments	0	(589)
Exchange differences on net investments in subsidiaries	(8,011)	19,531
	(8,011)	**18,942**

8 Costs by nature of expense

	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Raw materials and consumables	1,070,471	950,661
Depreciation and amortisation	76,946	77,523
Services	165,413	140,453
Taxes and charges	21,939	16,267
Employee benefit expense	127,842	118,457
Cost of merchandise and materials sold	129,925	199,183
Other costs	50,538	87,539
Total costs	**1,643,074**	**1,590,083**
Change in inventories of finished products and accruals and deferrals	(2,044)	(20,210)
Work performed by entity and capitalised to assets	(3,688)	3,427
Total operating expenses	**1,637,342**	**1,573,300**
including:		
Distribution costs	111,356	106,086
Administrative expenses	94,139	84,509
Cost of sales	1,431,847	1,382,705

Including costs of discontinued operations:

	Dec 31 2012	Dec 31 2011
Materials used	157,235	96,005
Depreciation and amortisation	33,931	33,328

(all amounts in PLN thousand)

Services	11,082	5,261
Taxes and charges	6,478	580
Employee benefit expense	28,293	24,545
Cost of merchandise and materials sold	0	47,385
Other costs	32,655	73,752
Total costs	**269,674**	**280,856**
Change in inventories of finished products and accruals and deferrals	1,074	492
Total operating expenses	**270,748**	**281,348**
including:		
Distribution costs	15,233	17,402
Administrative expenses	28,543	27,735
Cost of sales	**226,972**	**236,211**

(all amounts in PLN thousand)

9 Income tax expense

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Income tax expense		
Current portion of income tax	23,960	11,203
	23,960	11,203
Deferred income tax		
Relating to origination and reversal of temporary differences	(3,560)	(980)
Tax loss	3,902	6,789
	342	5,809
Income tax disclosed in profit or loss of the period	24,302	17,012
Including income tax attributable to discontinued operations	23,060	5,813

Reconciliation of income tax on pre-tax profit at the statutory tax rate to income tax calculated at the effective tax rate:

	%	Jan 1 – Dec 31 2012	%	Jan 1 – Dec 31 2011
Profit before tax		**60,587**		**38,747**
Tax at domestic rate	19.00%	11,512	19.00%	7,362
Effect of foreign tax rates	0.70%	427	(0.52%)	(200)
Unrecognised deferred tax assets	20,88%	12 650	20,82%	8 068
Recognition of deferred tax assets not recognized in previous years	(6,50%)	(3 938)	(6,45%)	(2 500)
Coverage of accumulated loss generated outside the zone	(0.27%)	(31)	0.00%	0
Non-tax-deductible expenses – permanent differences	7.82%	4,739	12.02%	4,659
Non-taxable income – permanent differences	(1.74%)	(1,057)	(0.97%)	(377)
Effect on income tax	**20.41%**	**12,363**	**25.42%**	**9,850**
Income tax at effective tax rate	40.11%	24,302	43.91%	17,012
Income tax disclosed in the consolidated income statement		**24,302**		**17,012**

(all amounts in PLN thousand)

10 Property, plant and equipment

	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
Gross value					
As at Jan 1 2011	456,607	1,132,432	44,119	180,307	1,813,465
Increase	0	0	31	60,889	60,920
Decreases	0	143	3,369	0	3,512
Transfers	4,100	9,376	380	(13,920)	(64)
Effect of exchange differences on translating subsidiaries	10,311	26,971	1,037	18,916	57,235
As at Dec 31 2011	471,018	1,168,636	42,198	246,192	1,928,044
As at Jan 1 2012	471,018	1,168,636	42,198	246,192	1,928,044
Increase	0	0	6	25,838	25,844
Decreases	217	3,573	2,174	0	5,964
Transfers	4,631	13,514	643	(21,057)	(2,269)
Reclassification into assets held for sale	(119,528)	(327,631)	(12,388)	(228,962)	(688,509)
Effect of exchange differences on translating subsidiaries	(5,107)	(12,701)	(533)	(9,912)	(28,253)
As at Dec 31 2012	350,797	838,245	27,752	12,099	1,228,893

(all amounts in PLN thousand)

	Land, buildings	**Plant and equipment**	**Other**	**Tangible assets under construction**	**Total**
Accumulated depreciation and impairment losses					
As at Jan 1 2011	130,954	530,572	29,800	0	691,326
Amortisation	15,524	54,491	4,377	0	74,392
Decreases	0	104	3,341	0	3,445
Reclassification of property, plant and equipment	250	-250	0	0	0
Effect of exchange differences on translating subsidiaries	2,109	9,159	653	0	11,921
As at Dec 31 2011	148,837	593,868	31,489	0	774,194
As at Jan 1 2012	148,837	593,868	31,489	0	774,194
Depreciation and amortisation	15,801	55,613	3,654	0	75,068
Decreases	217	3,448	2,015	0	5,680
Reclassification into assets held for sale	(31,991)	(148,817)	(9,922)	0	(190,730)
Effect of exchange differences on translating subsidiaries	(1,277)	(5,938)	(404)	0	(7,619)
As at Dec 31 2012	131,153	491,278	22,802	0	645,233
Net value					
As at Dec 31 2011	**322,181**	**574,768**	**10,709**	**246,192**	**1,153,850**
As at Dec 31 2012	**219,644**	**346,967**	**4,950**	**12,099**	**583,660**

(all amounts in PLN thousand)

All items of property, plant and equipment serve as security for the bank loans granted to the Group.

Classification of property, plant and equipment as assets held for sale.

Pursuant to the conditional agreement with Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V of October 19th 2012, the Pfleiderer Grajewo Group classified the property, plant and equipment of Pfleiderer OOO and Pfleiderer MDF OOO as assets held for sale or distribution (note 19).

Property, plant and equipment under finance lease

As at December 31st 2012, the Group held no property, plant and equipment under finance lease agreements. As at December 31st 2011, the Group held property, plant and equipment used under finance lease agreements (net value of PLN 342 thousand).

Tangible assets under construction and prepayments for property, plant and equipment

Other investments

The investments executed in 2012 involved the upgrade of the Holzma panel saw (PLN 4.3m), upgrade of the IMALL taping machine (PLN 2.4m, incurred by Pfleiderer Grajewo), installation of a heat recuperation system on the VITS impregnating machine (PLN 1.0m) and purchase and installation of the IMALL taping machine's high pressure system (PLN 1.8m, incurred by Pfleiderer Prospan).

The expenditure of PLN 16.3m covered mostly other minor operating projects with a cost of less than PLN 1m and a single large investment, which was not completed in 2012, i.e. the purchase of a turbine at Silekol for PLN 4.6m.

Impairment of non-financial non-current assets

The Management Board tested non-current non-financial assets for impairment as at December 31st 2012.

In order to review the impairment of non-current non-financial assets, their value was allocated to the cash flow generating unit, defined with respect to the operations of the Group members. The recoverable value of non-current non-financial assets was determined based on the value in use of the cash-generating units. The calculations take into account the cash flow projections approved by the Management Board. Cash flows extending beyond the period of five years are extrapolated at a 3% growth rate, which does not exceed the average long-term growth rate for the manufacturing sector in Poland.

The main assumptions used in the impairment test of non-current non-financial assets as at December 31st 2012 to calculate the value in use of cash-generating units were as follows:

	Grajewo S.A.	MDF Sp. z o.o.	Silekol Sp o.o.
increase in annual EBIDTA (budgeted; on average)	18,5%	17,2%	13,3%
growth rate beyond the five-year period covered by the budget	3%	3%	3%
discount rates	9%	9%	9%

The Management Board made budget assumptions for the impairment test based on past performance and on the Management Board's market development forecasts. A discount rate was applied to reflect the risks specific to a given operating segment. In the case of Polish companies, the interest rate on 10-

(all amounts in PLN thousand)

year treasury bonds was assumed as the risk-free rate. The projected cash flows were derived from the budgets for the years until 2017 approved by the Management Board. Cash flows for subsequent years (from 15 to 25 years, depending on the company) are determined by extrapolating the 2017 financial results at a fixed growth rate of 3%.

The test did not reveal any impairment of non-financial non-current assets as at December 31st 2012.

The difference between recoverable amount and carrying amount of goodwill presents below table:

	Grajewo S.A.	MDF 31.12.2012	Silekol 31.12.2012
surplus of recoverable amount over the carrying amount	**499**	**186**	**291**

Management identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The amount by which these two assumptions would need to change individually in order to for the estimated recoverable amount of the cash generating unit to be equal to the carrying amount is presented below:

	Pfl. Grajewo Sp. z o.o.	MDF Sp. z o.o.	Silekol Sp. z o.o.
reduction in growth of annual EBIDTA in the budgeted period of five years to	6,0 %	13,6%	(6,3%)
increase in discount rate to		12,2%	

Estimation of recoverable amount for disposal group including assets relating to Pfleiderer OOO and MDF OOO was carried out based on fair value less cost of disposal. The fair value was derived from the conditional sale agreement concluded in October 2012 (note 19). The impairment test did not indicate any impairment loss.

11 Intangible assets

	Licences, computer software and other
Gross value	
As at Jan 1 2011	25,225
Increase	817
Transfers	69
Effect of exchange differences on translating subsidiaries	159
As at Dec 31 2011	26,270
As at Jan 1 2012	26,270
Increase	10
Transfers	2,269
Reclassification into assets held for sale	(3,826)
Effect of exchange differences on translating subsidiaries	(165)

(all amounts in PLN thousand)

As at Dec 31 2012	24,558
Accumulated depreciation and impairment losses	
As at Jan 1 2011	20,521
Amortisation	3,131
Effect of exchange differences on translating subsidiaries	79
As at Dec 31 2011	23,731
As at Jan 1 2012	23,731
Amortisation	1,878
Reclassification into assets held for sale	(2,951)
Effect of exchange differences on translating subsidiaries	(318)
As at Dec 31 2012	22,340
As at Dec 31 2011	**2,539**
As at Dec 31 2012	**2,218**

In 2012, the Group made substantial outlays on intangible assets, related to the acquisition of Microsoft and SAP software licences for PLN 1.6m and PLN 0.6m, respectively.

12 Investments in jointly-controlled entities

	Country	Value of shares at acquisition cost	Ownership interest Dec 31 2012	Dec 31 2011
Blitz 11-446 GmbH	Germany	**117**	50%	50%

Key financial data of jointly controlled entities:

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/ (loss)
Jan 1 – Dec 31 2012					
Blitz 11-446 GmbH	138 652	258 735	(120 083)	0	(120 165)*
	138 652	**258 735**	**(120 083)**	**0**	**(120 165)**
Jan 1–Dec 31 2011					
Blitz 11-446 GmbH	283,563	283,456	107		(3)
	283,584	**283,456**	**128**	**0**	**(3)**

*Pfleiderer Grajewo SA Group is not obliged to cover losses of the jointly controlled entity.

(all amounts in PLN thousand)

13 Other financial assets

	Dec 31 2012	Dec 31 2011
Other non-current financial assets		
Financial assets available for sale	10	10
- shares in companies not listed on a regulated securities market		
	10	10
Total	**10**	**10**

14 Investment property

As at December 31st 2012, the Group disclosed investment property of PLN 4,300 thousand. Remeasurement of the property to fair value did not result in a change in its carrying amount.

The investment property includes land held in perpetual usufruct, located at ul. Bolesławiecka in Wieruszów, with a total area of 2.7835 ha, which as at December 31st 2012 was not used in the production or rendering of merchandise or services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

As the S-8 express way is planned to be built in the direct vicinity of the property, the Group treats the property as a potential future source of rental income and expects a considerable capital appreciation of the property. In 2010 a procedure was initiated to change the property's status from agricultural zone land to construction zone land. On November 22nd 2010, the Group received a zoning permit from the Mayor of Wieruszów to construct on the land a commercial property, with a maximum building footprint area of 2,500 square metres. Following the change of the property's zoning status, a qualified property appraiser engaged by the Group estimated the fair value of the property at PLN 4,300 thousand.
As at December 31st 2012, a qualified property appraiser engaged by the Company estimated that the fair value of the land, which is an investment property, was unchanged relative to December 31st 2011 at PLN 4,300 thousand.

Investment property served as a security for bank loans granted to the Group.

(all amounts in PLN thousand)

15 Deferred income tax asset and liability

	Assets Dec 31 2012	Liabilities Dec 31 2012	Net Dec 31 2012	Assets Dec 31 2011	Liabilities Dec 31 2011	Net Dec 31 2011
Non-current assets						
Property, plant and equipment	13,699	18,279	(4,580)	15,863	28,892	(13,029)
Investment property	0	597	(597)	0	597	(597)
Loans receivables	0	1	(1)	0	12,339	(12,339)
Other non-current financial assets	4	0	4	4	0	4
Current assets						
Inventories	1,995	0	1,995	1,397	441	956
Other current financial assets	0	93	(93)	610	294	316
Trade and other receivables	2,580	262	2,318	1,939	481	1,458
Disposal group	1,244	15,278	(14,034)	0	7,966	(7,966)
Non-current liabilities						
Borrowings and other debt instruments	1,025	0	1,025	69	756	(687)
Provisions	140	0	140	120	0	120
Employee benefit obligations	1,205	0	1,205	1,113	0	1,113
Current liabilities						
Borrowings and other debt instruments	0	181	(181)	1,487	0	1,487
Trade and other payables	1,201	8	1,193	4,350	48	4,302
Provisions	7	0	7	0	0	0
Employee benefit obligations	1,829	7	1,822	1,804	156	1,648
Total tax loss carried forward	13,716	0	13,716	23,834	0	23,834
Deferred income tax asset/liability	38,645	34,706	3,939	52,590	51,970	620
Deferred income tax asset and liability offset	(26,461)	(26,461)		(39,143)	(39,143)	
Deferred income tax asset/liability shown in the statement of financial position	**12,184**	**8,245**		**13,447**	**12,827**	

(all amounts in PLN thousand)

Changes related to temporary differences during the reporting period:

	As at Jan 1 2012	including discontinued operations – opening balance	As at Jan 1 2012 – continuing operations	Recognised in profit or loss	Recognised in equity	As at Dec 31 2012 continuing operations	As at Dec 31 2012 discontinued operations
Non-current assets							
Property, plant and equipment	-13,029	-488	-12,541	7,961	0	-4,580	-4,272
Investment property	-597	0	-597	0	0	-597	0
Loans receivables	-12,339	0	-12,339	10,459	1,879	-1	0
Other non-current financial assets	4	0	4	0	0	4	0
Current assets							
Inventories	956	-267	1,223	772	0	1,995	-305
Other current financial assets	316	503	-187	94	0	-93	0
Trade and other receivables	1,458	632	826	1,492	0	2,318	1 188
Loans receivables	-7,966	0	-7,966	-6,068	0	-14,034	0
Liquid funds and other current assets	0	0	0	0	0	0	-17
Non-current liabilities							
Liabilities under bank borrowings and other debt instruments	-687	55	-742	1,767	0	1,025	0
Employee benefit obligations	1,113	0	1,113	92	0	1,205	0
Provisions	120	0	120	20	0	140	0
Current liabilities							
Liabilities under bank borrowings and other debt instruments	1,487	0	1,487	-1,668	0	-181	0
Trade and other payables	4,302	2,922	1,380	-187	0	1,193	1 361
Employee benefit obligations	1,648	0	1,648	174	0	1,822	172
Provisions	0	0	0	7	0	7	0
Total tax loss carried forward	23,834	3,180	20,654	-6,938	0	13,716	0
	620	**6,537**	**-5,918**	**7,977**	**1,879**	**3,939**	**-1,873**
Income tax attributable to discontinued operations				**-8,410**			
Exchange differences on translating foreign operations				**91**			
Change in temporary differences recognised in profit or loss				**-342**			

(all amounts in PLN thousand)

	As at Jan 1 2011	Change in temporary differences recognised in profit or loss for the period	Change in temporary differences recognised in other comprehensive income	As at Dec 31 2011
Non-current assets				
Property, plant and equipment	(24,298)	11,269	0	(13,029)
Intangible assets	0	0	0	0
Investment property	(597)	0	0	(597)
Loans receivables	(9,696)	1,938	(4,581)	(12,339)
Other non-current financial assets	4	0	0	4
Current assets				
Inventories	897	59	0	956
Other current financial assets	100	216	0	316
Trade and other receivables	2,492	(1,034)	0	1,458
Loans receivables	0	(7,966)	0	(7,966)
Non-current liabilities				
Liabilities under bank borrowings and other debt instruments	159	(846)	0	(687)
Employee benefit obligations	1,018	95	0	1,113
Provisions	122	(2)	0	120
Current liabilities				
Liabilities under bank borrowings and other debt instruments	584	903	0	1,487
Trade and other payables	3,421	881	0	4,302
Employee benefit obligations	1,295	353	0	1,648
Total tax loss brought forward	34,700	(10,866)	0	23,834
	10,201	**(5,000)**	**(4,581)**	**620**
Exchange differences on translating foreign operations		**(809)**		
Change in temporary differences recognised in profit or loss		**(5,809)**		

16 Government grants receivable and deferred income under government grants

Government grants receivables include economic assistance received from the following sources:

1) Pursuant to a project co-financing agreement concluded between Pfleiderer MDF Sp. z o.o. (a member of the Group) and the Minister of Economy of October 30th 2006, Pfleiderer MDF Sp. z o.o. received PLN 23,051 thousand as an investment grant to co-finance the construction of the MDF plant with a biomass-fired boiler house.

   The grant comprises PLN 22,202 thousand to cover capital expenditure and PLN 849 thousand to cover two-year employment costs connected with the creation of 55 new jobs. These amounts were received by the Group in 2007 and recognised as deferred income. The amount of PLN 22,202 thousand is released to other income along with depreciation charges on the property, plant and equipment to which the grant relates. The amount of 849 thousand was charged to other income.

2) On November 10th 2005, Pfleiderer MDF Sp. z o.o. received a permit to conduct business activities in the Suwałki Special Economic Zone (“SSE”), which entitles the company to use government assistance in the form of a corporate income tax exemption, provided that the company satisfies certain conditions which are discussed below.

   The permit to conduct business activities in the Suwałki Special Economic Zone entitles the company to use government grants. A corporate income tax exemption is a form of government grants. The permit is valid until September 1st 2016, provided that the company meets certain requirements. These requirements include incurring capital expenditure of at least EUR 78m by December 31st 2009, employing at least 120 people by January 1st 2010, and meeting the other requirements imposed by the laws pertaining to Special Economic Zones. As at the reporting date, the company met all the requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditure incurred up to EUR 50m, 50% of half of the amount of expenditure in excess of EUR 50m and up to EUR 100m, and 34% of half of the amount of expenditure in excess of EUR 100m.

   In connection with the foregoing, the Group recognised government grant assets and liabilities (current and non-current) as government grant receivables and deferred income under government grants. The Group reduces its government grant receivables by the value of the government grants used in the form of the corporate income tax exemption. In 2012, the Group used PLN 614 thousand of government grants.

   Deferred income under government grants is released based on the average weighted depreciation rate applicable to the property, plant and equipment the acquisition of which served as the basis for determining the amount of government grants.

   The table below presents the structure of the deferred income under government grants and the amounts released to other income in 2011 and 2012.

(all amounts in PLN thousand)

Type of government grants	Investment grant	Corporate income tax exemption	Total
As at Jan 1 2011	17,977	9,062	27,039
Amortisation of government grants	(825)	(363)	(1,188)
Revaluation of government grants	0	16,509	16,509
As at Dec 31 2011	**17,152**	**25,208**	**42,360**
As at Jan 1 2012	17,152	25,208	42,360
Amortisation of government grants	(821)	(1,050)	(1,871)
Revaluation of government grants	0	(12,108)	(12,108)
As at Dec 31 2012	**16,331**	**12,050**	**28,381**
Non-current portion	15,510	11,723	27,233
Current portion	821	327	1,148
Total	**16,331**	**12,050**	**28,381**

As at December 31st 2012, the Group performed an analysis and reassessment of the amount of government grants. As a result, the Group reduced the carrying amount of government grant in the form of corporate income tax exemption. The value of government grant assets and liabilities decreased by PLN 12,108 thousand, which resulted from a change in the estimated corporate income tax, which will not be paid given the exemption for the period of the Group's operations in the Suwałki Special Economic Zone. The amount was estimated based on the updated budget projections approved by the Management Board. The Management Board adopted budget assumptions, which serve as a basis for the estimation of the government grants amount based on historical results and expectations as to the market developments. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. The estimated amount of government grant has not be discounted. Furthermore, the carrying amount of government grant asset was reduced by PLN 614 thousand, that is the amount of unpaid corporate income tax for the Group's operations in the Suwałki Special Economic Zone in 2012.

The table below presents the structure of the government grant receivables.

	Dec 31 2012	Dec 31 2011
Corporate income tax exemption	14,443	27,165
Total	**14,443**	**27,165**
Non-current portion	14,443	27,165
Current portion	0	0
	14,443	**27,165**

(all amounts in PLN thousand)

17 Inventories

	Dec 31 2012	Dec 31 2011
Materials and merchandise	103,777	161,340
Semi-finished products and work in progress	0	466
Finished products	64,516	71,573
Advances for deliveries	6,510	8,451
Total	**174,803**	**241,830**

Inventories are stated in the statement of financial position at net realisable value, i.e. net of write-downs of PLN 11,138 thousand (December 31st 2011: PLN 6,362 thousand).

18 Trade and other receivables

	Dec 31 2012	Dec 31 2011
Trade receivables	43,090	97,421
Trade receivables from related parties	7,597	7,364
Current prepayments and accrued income	10,380	3,405
Current VAT receivables	7,660	32,697
Other receivables	1,629	16,602
Total	**70,356**	**157,489**

As at December 31st 2012, trade receivables were reduced by impairment losses of PLN 11,453 thousand (December 31st 2011: PLN 10,950 thousand).

Trade and other receivables include the following financial receivables:

	Note	Dec 31 2012	Dec 31 2011
Trade receivables		43,090	97,421
Trade receivables from related parties		7,597	7,364
Other receivables		1,629	2,982
Total	**26**	**52,316**	**107,767**

Factoring of receivables

The Group is a party to factoring agreements; such agreements are executed for periods of not less than one year. These agreements are regularly extended for successive periods. At present, the factoring agreements are valid until March 31st 2014. The agreements regarding Pfleiderer Grajewo SA, Pfleiderer MDF Sp. z o.o. and Prospan provide for factoring services with respect to trade receivables which are covered by insurance policies, with a PLN 200m limit. Additionally Silekol has an agreement with a limit of PLN15 m. Collection of the receivables acquired by the factor is secured with an assignment of rights under the receivables insurance agreements.

Under the factoring agreements, the factor purchases the receivables for 90% or 100% of their nominal value, and the cost of financing the factoring service (WIBOR + margin) is covered by the Group. If the debtors fail to pay their liabilities, the factor has a claim towards the insurer under the insurance agreement with respect to 90% of the value of the receivables, and the remaining 10% of the receivables value is covered by the Group. As the Group continues to be exposed to a portion (10%) of the receivables sold to the factor under the factoring agreement, that portion of the receivables together with the related liabilities continue to be recognised in the Group's financial statements. The remainder of the receivables (90%) were derecognised from the Group's statement of financial position.

(all amounts in PLN thousand)

The table below presents the amounts of the trade receivables sold under the factoring agreement and the carrying amounts of the receivables and the related liabilities which continue to be recognised the statement of financial position:

	Dec 31 2012	Dec 31 2011
Total trade receivables	186,405	224,108
Receivables derecognised from the statement of financial position	(135,718)	(126,687)
Net trade receivables	**50,686**	**97,421**

	Dec 31 2012	Dec 31 2011
Factoring receivables as at the reporting date	157,912	147,989
Payments made by customers, not submitted to the factor	7,015	7,167
Balance after payments, including:	150,896	140,822
Derecognised receivables (90%)	135,718	126,687
Receivables recognised in the statement of financial position up to the commitment amount (10%)	**15,178**	**14,135**

Settlement of factoring services	Dec 31 2012	Dec 31 2011
Factoring receivables as at the reporting date	157,912	125,733
Other settlements with the factor – cash in transit	(223)	(2,159)
Payments received	(140,271)	(107,185)
Factoring liabilities as at the reporting date	**17,418**	**16,389**

19 Discontinued operations and assets held for sale

In Q4 2012, the Pfleiderer Grajewo Group entered into a conditional agreement with Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., providing for the sale of all shares in Pfleiderer OOO of Russia as well as Pfleiderer MDF OOO's assets. At the same time, under the agreements, the Pfleiderer Grajewo Group will lose control over its subsidiary Pfleiderer MDF OOO. As a consequence, the Group will no longer recognise the subsidiary's assets and liabilities as part of its continuing operations. Any net gain or loss recognised as a result of the loss of control will be taken to the Group's profit or loss. As at December 31st 2012, the Group classified the subsidiaries' assets as disposal group and their respective liabilities as liabilities associated with the disposal group. Both companies belong to a separate reporting segment and their activity was presented in statement of comprehensive income as discontinued operation. The statement of comprehensive income presents continuing activity separately from discontinued operations.

Disposal group	**Dec 31 2012**
Property, plant and equipment and prepayments	693,209
Intangible assets	688
Inventories	45,913
Trade and other receivables	64,341
Cash and cash equivalents	9,756

	813,907
Liabilities related to disposal group	
Deferred tax liabilities	905
Borrowings and other debt instruments	189,066
Trade and other payables	57,477
Employee benefit obligations	1,861
	249,309

Statement of cash flows from discontinued operations for the period January 1st – December 31st 2012 (PLN thousand)

	Jan 1– Dec 31 2012	**Jan 1– Dec 31 2011**
Net cash from operating activities	86,100	55,439
Net cash from investing activities	(4,609)	(24,509)
Net cash from financing activities	(81,966)	(35,297)
Cash from discontinued operations at end of the period	**(475)**	**(4,367)**
Cash at beginning of the period	10,476	14,499
Cash at end of the period	10,001	10,132
Exchange differences on translating the opening balance	(344)	0
Exchange rate	0.1043	0.1008

20 Equity

	Dec 31 2012	**Dec 31 2011**
Par value of share capital	16,376	16,376
Number of ordinary shares	49,624,000	49,624,000
Par value per share (PLN)	0.33	0.33
Earnings per share attributable to owners of the parent	1.00	0.67

All the shares issued by the Group are ordinary shares. Holders of ordinary shares are entitled to receive approved dividends and to exercise one vote per each share held at the Company's General Meeting. All shares confer the same rights to share in the distribution, if any, of the Company's assets.

Pfleiderer Grajewo S.A. is a subsidiary of Pfleiderer Service GmbH, which holds 65.11% of the shares in Pfleiderer Grajewo S.A. In the period from January 1st to December 31st 2012, the number of the Company shares held by its shareholder, Pfleiderer Service GmbH, did not change.

The ultimate shareholder of Pfleiderer S.A. is Atlantic S.A., Luxembourg.

Share capital

The share capital is made up of 49,624,000 ordinary shares with a par value of PLN 0.33 per share. As at December 31st 2012 all the shares were paid up. Shareholders have the right to dividend and are entitled to one vote per share at the General Meetings.

In the period from January 1st to December 31st 2012, there were no changes in the share capital.

In the period from the registration of the share capital in 1994 to December 1996 the Group operated in a hyperinflationary environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires that each component of equity (except retained earnings and revaluation surplus) be restated by applying a general price index from the period of hyperinflation. Such retroactive restatement would cause share capital and statutory reserve funds to increase by the total amount of PLN 28,863 thousand and retained earnings to decrease by the same amount.

(all amounts in PLN thousand)

Share premium

Share premium is created from the excess of proceeds from issuance of shares above their par value. In 2012, there were no changes in share premium.

Statutory reserve funds

Statutory reserve funds are created with distributions from net profit (i.e. at least 8% of net profit until statutory reserve funds reach one-third of the share capital).

In 2012, the portion of the 2011 profit allocated by the Group to statutory reserve funds was PLN 40,801 thousand.

Exchange differences on translating foreign operations

Exchange differences on translating foreign operations include all foreign exchange gains/(losses) arising on translation of the financial statements of foreign subsidiaries of Pfleiderer OOO and Pfleiderer MDF OOO.

Exchange differences on net investments in subsidiaries

Parent Pfleiderer Grajewo S.A. has receivables under loans advanced to its Russian subsidiaries Pfleiderer OOO and Pfleiderer MDF. The loans are treated as net investments in these entities; therefore, in accordance with IAS 21, exchange gains/(losses) on translating these receivables are presented as other comprehensive income (a separate item of equity) under exchange differences on net investments in subsidiaries.

Revaluation reserve – please refer to note 6 (d) (ii).

Dividends

The parent did not pay dividend in 2012.

21 Earnings per share

Earnings per share were calculated based on the profit of equity holders of the parent attributable to ordinary shares and the weighted average number of ordinary shares outstanding during the twelve months.

Net profit of the owners of the Parent attributable to ordinary shares for the financial year ended December 31st 2012 amounted to PLN 49,815 thousand, whereas net profit attributable to ordinary shares for the financial year ended December 31st 2011 was PLN 33,209 thousand.

The weighted average number of ordinary shares outstanding in the discussed periods used to calculate basic and diluted loss per share was as follows:

	Jan 1– Dec 31 2012	**Jan 1– Dec 31 2011**
Number of ordinary shares as at January 1st	49,624,000	49,624,000
Number of ordinary shares as at December 31st	49,624,000	49,624,000
Weighted average number of shares as at December 31st	49,624,000	49,624,000

(all amounts in PLN thousand)

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Earnings per share	1.00	0.67
Diluted earnings per share	1.00	0.67

22 Borrowings and other debt instruments

	Dec 31 2012	Dec 31 2011
Non-current liabilities		
Overdraft facility repayable in over 12 months from the reporting date	0	5,714
Non-current portion of interest-bearing bank borrowings	149,381	687,266
Liabilities under borrowings from related entities	33,269	187,954
Total	**182,650**	**880,934**
Current liabilities		
Overdraft facility repayable in less than 12 months from the reporting date	2,171	9,579
Current portion of interest-bearing bank borrowings	526,277	128,181
Total	**528,448**	**137,760**

(all amounts in PLN thousand)

Bank borrowings

The Group has credit facilities available in the form of overdraft facility and short- and long-term portion of bank borrowings. As at December 31 2012, liabilities under bank borrowings were PLN 677,829 thousand.

All credit lines used by the Group bear interest at variable interest rates based on WIBOR plus margin.

Terms and repayment schedules of the bank borrowings as at December 31st 2012:

						As at Dec 31 2012	
Lender	**Borrower**	**Currency**	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of five banks Tranche B	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR + margin	Mar 16 2013	mortgages, pledges	2,171	0
Syndicate of five banks Tranche A	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR + margin	Dec 30 2013	mortgages, pledges	455,083	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Oct 15 2013	mortgage, registered pledge, assignments	38,725	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jul 15 2016	mortgage, registered pledge, assignments	0	149,381
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jun 30 2013	mortgage, registered pledge, assignments	32,469	0
						528,448	**149,381**

(all amounts in PLN thousand)

Terms and repayment schedules of the bank borrowings as at December 31st 2011:

						As at Dec 31 2011	
Lender	**Borrower**	**Currency**	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of five banks Tranche B	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR + margin	Mar 16 2012	mortgages, pledges	9,579	0
Syndicate of five banks Tranche A	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR + margin	Dec 30 2013	mortgages, pledges	37,737	452,030
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Oct 15 2012	mortgage, registered pledge, assignments	38,725	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jul 15 2016	mortgage, registered pledge, assignments	0	188,302
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jun 30 2013	mortgage, registered pledge, assignments	0	35,713
EBRD	Pfleiderer OOO	EUR	6M EURIBOR + margin	Oct 11 2013	surety, mortgage, registered pledge	12,418	16,935
EBRD	Pfleiderer Grajewo	RUB	EURIBOR + margin	Jun 19 2012	shares in Pfleiderer OOO	39,301	0
						137,760	**692,980**

(all amounts in PLN thousand)

Liabilities under borrowings from related entities

	Dec 31 2012	Dec 31 2011
Borrowings from related entities	33,269	187,954
	33,269	**187,954**

Borrowings from related entities comprise a PLN 8,802 thousand loan from by Pfleiderer Service GmbH to finance day-to-day operations of Pfleiderer MDF Sp. z.o.o., to be repaid by July 16th 2016; and a PLN 24,467 thousand loan to finance day-to-day operations of Pfleiderer Grajewo S.A. falling due on June 30th 2014.

(all amounts in PLN thousand)

23 Employee benefit obligations

	Dec 31 2012	Dec 31 2011
Salaries and wages	3,226	4,026
Personal income tax	1,228	1,451
Social security	3,922	3,607
Social Benefits Fund	1,718	2,038
Retirement bonus obligations	7,356	6,867
Length-of-service award obligations	0	62
Unused holiday entitlement obligations	3,178	3,511
Employee bonus obligations	5,219	6,124
Other employee benefit obligations	0	16
Total	**25,847**	**27,702**
Non-current portion	7,111	6,584
Current portion	18,736	21,118
Total	**25,847**	**27,702**

Retirement bonus and length-of-service award obligations

As of January 1st 2012, the Group no longer pays length-of-services awards (jubilee awards).
Every employee reaching the retirement age (67 years, based on the transitional regulations – Dz. U. of June 6th 2012, item 637), who has the required length of service, for which they can provide evidence, is entitled to receive retirement bonus. Employees with permanent work disability, entitling to disability benefits under the social security scheme, are entitled to receive disability severance payment. The amount of retirement bonus or disability severance payment is computed based on the employee's one-month pay. The amount of bonus or severance payment increases proportionately following ten years of service at the Company at the rate of 10% of the base pay for each year of service above ten years, and following 20 years of service at the Company – at the rate of 20% of the base pay for each year of service above 20 years. Pursuant to z Art. 92^1.1 of the Labour Code, retirement bonus or disability severance payment must not be lower than the employee's one-month pay.

Retirement bonus and disability severance payment obligations were determined by a qualified actuary using the actuarial projected unit credit method. The following assumptions were used:

- Data on staff turnover was derived from the statistics of Pfleiderer Grajewo S.A. for 1997–2012, and with respect to Pfleiderer Prospan S.A. – for 1995–2012, Silekol Sp. z o.o. – for 2005–2012, Pfleiderer MDF Sp. z o.o. – for 2006–2012, and Jura Polska Sp. z o.o. – for 2004–2012, as well as from the statistics available to HALLEY.PL AKTUARIUSZE Sp. z o.o., an actuarial firm. In accordance with the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.

- The mortality rate was based on the likelihood of death depending on age, based on the 2011 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the population of employees of the Group is characterised by the mortality rate provided in the tables, adjusted for the mortality multiplier. It was further assumed that the mortality rate is constant throughout the year.

- The likelihood of becoming a disabled person was based on the historical data of the Social Insurance Institution and estimates prepared by actuarial firm HALLEY.PL AKTUARIUSZE Sp. z o.o. On the basis of generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, length of service or sex. The model applied does not show significant sensitivity to slight changes of this parameter.

(all amounts in PLN thousand)

- The retirement age for men is 67 (based on the transitional regulations of June 6th 2012).
- In accordance with the rules governing the award of length-of-service awards, persons terminating their employment with the Company lose their right to any future length-of-service award, retirement bonus or disability severance payment.
- The date for calculating all entitlements was the beginning of each calendar year, with the assumption that the entitlements are evenly distributed throughout the year.
- The remuneration growth rate was assumed at 3.5% per annum.
- The discount rate on future benefits was assumed at 4%.

Employee bonus obligations

Employee bonuses comprise quarterly and annual bonuses paid to the Group's employees. They are recognised with respect to specific completed tasks in relation to which employees will receive payment in the future.

24 Provisions

	Provisions	Total
As at Jan 1 2011	**640**	**640**
Increase	0	**0**
Release	6	**6**
As at Dec 31 2011	**634**	**634**
As at Jan 1 2012	**634**	**634**
Increase	105	**105**
Release	0	**0**
As at Dec 31 2012	**739**	**739**
Non-current portion	739	739
Current portion	0	0
	739	**739**

Provisions for settlements with employees

Provisions for settlements with employees were recognised to cover the cost of cancelling the loans granted to employees to finance purchases of shares, to the extent exceeding the carrying amount of receivables under loans advanced to employees for that purpose.

The provisions will be used as of 2034.

(all amounts in PLN thousand)

25 Trade and other payables

	Dec 31 2012	Dec 31 2011
Trade payables	158,378	194,502
Trade payables to related entities	3,416	11,927
Liabilities under factoring agreements	17,418	16,389
VAT liabilities	106	281
Liabilities under investment supplies	9,051	7,147
Deliveries prepaid by related entities	0	886
Prepaid deliveries	1,484	2,535
Other liabilities	7,259	33,255
Total	**197,112**	**266,922**

For details on liabilities under factoring agreements, see Note 18.

Other liabilities are related to accrued expenses and deferred income.

Trade and other payables include the following financial liabilities:

	Dec 31 2012	Dec 31 2011
Trade payables	158,378	194,502
Trade payables to related entities	3,416	11,927
Liabilities under factoring agreements	17,418	16,389
Liabilities under investment supplies	9,051	7,147
Other liabilities	6,620	32,524
Total	**194,883**	**262,489**

26 Financial instruments

Objectives and methods of financial risk management applied by the Group

The Group manages all types of financial risk described below which may have a significant effect on its future operations, focusing in particular on the market risk, including the interest rate risk, currency risk, credit risk, and liquidity risk.

The objective behind credit risk management is to reduce the Group's losses which could follow from customers' insolvency. This risk is mitigated with the use of receivables insurance and factoring services. 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 with a view to protecting cash flows. To manage the currency risk, it first relies on natural hedging and where necessary uses forward contracts. The objective of financial liquidity management is to protect the Group from insolvency. This objective is pursued through regular projection of debt levels in a five-year horizon, and arrangement of appropriate financing.

The Group is exposed to credit risk, interest rate risk and currency risk in the ordinary course of business. Financial derivatives are used to hedge the risk related to exchange rate fluctuations and changes in interest rates.

(all amounts in PLN thousand)

Credit risk

In accordance with the Management Board's policy, credit risk exposure is monitored on an ongoing basis.

Credit risk related to cash is limited since the Group only deposits their resources in financial institutions with a recognised financial standing.

All customers who require credit in excess of a certain amount are evaluated in terms of credit worthiness. The Group does not require any security on customer assets.

The Group insures its trade receivables. As at December 31st 2012, ca. 90% of total trade receivables from non-related parties were covered with trade credit insurance. The insurance policies secure credit risk – if a customer fails to pay, the insurer covers the loss.

The Group did not incur any significant losses resulting from failure to collect receivables from customers. Impairment losses are recognised on uninsured receivables, as well as the amounts corresponding to the Group's deductibles in relation to receivables insured, on the basis of a detailed analysis of the accounts receivable.

As at the reporting date, there was no significant concentration of credit risk. The carrying amount of each financial asset, including financial derivatives, represents the maximum credit risk exposure.

The total credit risk exposure was as follows:

	Dec 31 2012	**Dec 31 2011**
Loans and receivables	52,316	107,767
Cash and cash equivalents	17,518	19,586
Other non-current financial assets	10	10
Total	**69,844**	**127,353**

As at December 31st 2012 and December 31st 2011, past due trade receivables were as follows:

	Gross value	Impairment loss
	Dec 31 2012	
Not overdue	22,855	229
Overdue by:		
0-180 days	31,854	4,332
180-360 days	308	127
More than 360 days	7,123	6,765
	62,140	**11,453**

	Gross value	Impairment loss
	Dec 31 2011	
Not overdue	82,395	364
Overdue by:		
0-180 days	23,312	2,191
180-360 days	1,060	790
More than 360 days	8,968	7,605
	115,735	**10,950**

Changes in impairment losses on trade receivables in the twelve months ended December 31st 2012 and December 31st 2011 are presented below.

(all amounts in PLN thousand)

	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Balance at beginning of the period	10,950	9,839
Change in impairment losses	503	1,111
Balance at end of the period	11,453	10,950

Interest rate risk

Interest rate risk is connected with interest payments under financial instruments bearing interest at floating rates only. As at the reporting date, the Group did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

Financial instruments with floating interest rate

	Dec 31 2012	Dec 31 2011
Financial assets	0	0
Financial liabilities	728 516	1 035 083
Total	728 516	1 035 083

Analysis of the sensitivity of cash flows from variable-rate financial instruments

A 1% change in interest rates would lead to a change in net profit by the amounts set out below. The analysis presented below is based on the assumption that other variables, especially FX rates, remain unchanged. The following analysis refers to cash flow from continuing operations.

	Jan 1–Dec 31 2012		Jan 1–Dec 31 2011	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments	(7,285)	7,285	(10,351)	10,351
Difference in the amount of interest and effect on profit/loss before tax	(7,285)	7,285	(10,351)	10,351
Difference in the amount of interest and effect on net profit/loss	(5,901)	5,901	(8,384)	8,384
Effect on equity	0	0	0	0

Analysis of the sensitivity of fair value of fixed-rate financial instruments

The Group does not carry any significant fixed-rate financial assets or any liabilities measured at fair value through profit or loss and does not use derivatives transactions as fair value hedges. Therefore, a change in interest rates would have no effect on the statement of comprehensive income through a change in the fair value of financial instruments.

Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of materials and goods for resale, and sale of finished products. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses mostly offset each other (natural hedging). The Group also makes investment expenditure denominated in foreign currencies, and therefore monitors its foreign currency positions on an on-going basis and hedges open positions through forward transactions. Forward transactions include purchases of foreign currency at a predetermined rate. In 2012, the Group used forward contracts to hedge its currency risk related to business transactions (exports of goods). The forward contracts used to hedge the Company's business transactions provide for the sale of EUR at a pre-determined rate. This helps to secure margins on export sales and mitigate the risk of adverse changes of the margins due to appreciation of the polish zloty.

The Group had no open forward positions as at December 31st 2012.

Forward contracts were measured at the end of each month. Changes in the fair value of hedging transactions are recognised in accordance with the hedge accounting policy.

The Group is also exposed to currency risk in connection with EUR-denominated bank borrowings and loans payable to related entities.

(all amounts in PLN thousand)

Exposure to currency risk under financial instruments, expressed in the złoty (translated at the exchange rate effective at the end of the reporting period):

As at Dec 31 2012:	**EUR**	**USD**	**GBP**	**RON**	**RUB**
Trade receivables	14,376	45	0	0	0
Liabilities under borrowings and other debt instruments	(15,875)	0	0	0	0
Loans advanced	0	0	0	0	295,871
Trade payables	(33,783)	0	(294)	(14)	0
Loans received	(175,348)	0	0	0	0
Balance-sheet exposure, gross	**(210,630)**	**45**	**(294)**	**(14)**	**295,871**
Forward transactions	0	0	0	0	0
Net exposure under financial instruments	**(210,630)**	**45**	**(294)**	**(14)**	**295,871**
including under discontinued operations:					
Trade payables	(9,730)	0	0	0	0
Loans received	(150,881)	0	0	0	0
Liabilities under borrowings and other debt instruments	(15,875)	0	0	0	0
Loans advanced	0	0	0	0	295,871
Net exposure under financial instruments – discontinued operations	**(176,486)**	**0**	**0**	**0**	**0**
Trade receivables	14,376	45	0	0	0
Trade payables	(24,053)	0	(294)	(14)	0
Loans received	(24,467)	0	0	0	0
Net exposure under financial instruments – continuing operations	**(34,143)**	**45**	**(294)**	**(14)**	**295,871**

(all amounts in PLN thousand)

As at Dec 31 2011:	**EUR**	**USD**	**GBP**	**RON**	**RUB**
Trade receivables	15,830	49	0	0	0
Liabilities under borrowings and other debt instruments	(73,625)	0	0	0	0
Loans advanced	0	0	0	0	367,225
Trade payables	(35,947)	0	0	0	0
Borrowings received	(179,549)	0	0	0	0
Balance-sheet exposure, gross	**(273,291)**	**49**	**0**	**0**	**367,225**
Forward transactions	0	0	0	0	0
Net exposure under financial instruments	**(273,291)**	**49**	**0**	**0**	**367,225**
including under discontinued operations:					
Trade receivables	37	0	0	0	0
Trade payables	(17,504)	0	0	0	0
Borrowings received	(154,645)	0	0	0	0
Loans advanced	0	0	0	0	367,225
Net exposure under financial instruments – discontinued operations	**(172,112)**	**0**	**0**	**0**	**367,225**
Trade receivables	15,794	49	0	0	0
Liabilities under borrowings and other debt instruments	(73,625)	0	0	0	0
Trade payables	(18,443)	0	0	0	0
Borrowings received	(24,904)	0	0	0	0
Net exposure under financial instruments – continuing operations	**(101,179)**	**49**	**0**	**0**	**0**

(all amounts in PLN thousand)

The Group recognises receivables under loans granted in the Russian rouble by Pfleiderer Grajewo S.A. to Pfleiderer OOO and Pfleiderer MDF OOO, its subsidiaries, as net investments in subsidiaries. As at December 31st 2012, the total value of loans advanced to Pfleiderer OOO and Pfleiderer MDF OOO, amounting to PLN 295,871 thousand, was treated as net investment in subsidiaries (December 31st 2011: PLN 367,225 thousand). Exchange differences on translating those loans are charged directly to other comprehensive income and presented in translation reserve in equity. For information on the settlement of the exchange differences, see Note 20 Equity.

Analysis of sensitivity to exchange rate changes

A 5% change in the value of a foreign currency in relation to the złoty would lead to changes of profit before tax, net profit, and equity as specified below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged. The following sensitivity analysis of exposure to exchange rate changes risk for continued operations (2012).

As at Dec 31 2012:	**+5%**	**-5%**
EUR	(1,707)	1,707
USD	2	(2)
GBP	(15)	15
RON	(1)	1
Effect on profit/loss before tax	(1,720)	1,720
Effect on net profit/loss	(1,393)	1,393
Effect on equity	0	0

As at Dec 31 2011:	**+5%**	**-5%**
EUR	(13,665)	13,665
USD	2	(2)
SEK	0	0
Effect on profit/loss before tax	(13,663)	13,663
Effect on net profit/loss	(11,067)	11,067
Effect on equity	0	0

The sensitivity analysis was based on the following exchange rates of the złoty against foreign currencies.

Currency	**Exchange rate as at Dec 31 2012**	**Exchange rate as at Dec 31 2011**
EUR	4.0882	4.4168
USD	3.0996	3.4174
RUB	0.1017	0.1061
SEK	0.4757	0.4950
RON	0.9197	1.0226

(all amounts in PLN thousand)

Liquidity risk

The table below presents an analysis of the Group's financial liabilities by remaining maturity as from the reporting date. The amounts presented in the table are contractual, non-discounted cash flows.

As at Dec 31 2012	Carrying amount	Contractual cash flows	Below 6 months	6–12 months	1–2 years	2–5 years	More than 5 years
Overdraft facilities	2,171	2,204	2,204	0	0	0	0
Liabilities under borrowings and other debt instruments	709,357	780,708	95,819	483,692	93,126	108,071	0
Trade and other payables	194,833	194,833	194,833	0	0	0	0
	906,361	**977,812**	**292,923**	**483,692**	**93,126**	**108,071**	

As at Dec 31 2011	Carrying amount	Contractual cash flows	Below 6 months	6–12 months	1–2 years	2–5 years	More than 5 years
Overdraft facilities	15,293	16,059	9,931	207	5,921	0	0
Liabilities under borrowings and other debt instruments	1,003,401	1,157,515	115,545	77,347	758,941	205,682	0
Trade and other payables	262,489	262,489	262,489	0	0	0	0
	1,281,183	**1,436,063**	**387,965**	**77,554**	**764,862**	**205,682**	**0**

(all amounts in PLN thousand)

As at December 31st 2012, the Pfleiderer Grajewo Group had debt under bank borrowings of PLN 677.8m and under other borrowings of PLN 33.3m; it also had an unused credit facility of PLN 168.9m. Most of those liabilities were short-term credit facilities. The Group also held cash in the amount of PLN 17.5m.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities is similar to their carrying amounts as at December 31st 2012 and December 31st 2011.

Capital management

The Group defines equity as the carrying amount of the equity including non-controlling interests. The key ratio applied by the Group to monitor equity is the ratio of *equity to total assets*. At the end of 2012, the ratio was 32.38%, up from 29.26% a year before.

The table below presents the value of equity and the equity to total assets ratio.

	Dec 31 2012	**Dec 31 2011**
Equity	585,165	566,481
Total assets	1,807,032	1,935,970
Ratio *Equity* / *Total assets*	32.38%	29.26%

The Group manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. The Group did not pay dividend for 2012.

In addition, pursuant to the Commercial Companies Code, the parent is obliged to create statutory reserve funds by creating provisions in the amount of at least 8% of profit for a given financial year, until the amount of the statutory reserve funds reaches one-third of the Company’s share capital.

(all amounts in PLN thousand)

27 Operating lease agreements

On December 19th 2012, the Group first sold items of property, plant and equipment, and subsequently started to use them under the operating lease agreement as part of a sale-and-lease-back arrangement. The lease agreement expires on December 19th 2015; the first lease payment was made by the Group in January 2013. Net proceeds of PLN 11,795 thousand from the sale of items of property, plant and equipment were recognised in other income under *Other* (see Note 4).

Pursuant to the two lease agreements executed by Pfleierer MDF Sp. z.o.o., concerning the board packing machine and the lacquering line, which continue in force, the lease agreements expire in January and March 2014, respectively.

The Group leases 29 company cars. The lease agreements expire in April 2013, H2 2014 and at the beginning of 2015.

In 2012, the Group incurred costs under operating leases of PLN 11,431 thousand (2011: PLN 9,437 thousand).

The operating lease payments outstanding as at the reporting date are presented in the table below:

	Dec 31 2012	**Dec 31 2011**
From 1 to 5 years	12,866	2,652
Up to one year	9,280	11,001
Total	**22,146**	**13,653**

28 Contractual commitments for the acquisition of property, plant and equipment and intangible assets

As at December 31st 2012, the Group has contractual commitments resulting from long term investment agreements signed relating to 15 open contracts amounting to PLN 21,349 million.

29 Contingent liabilities

As at December 31st 2012, the Group did not identify any significant contingent liabilities except possible liability resulting from the antitrust proceedings described in note 32.

(all amounts in PLN thousand)

30 Material related-party transactions

Related-party transactions as at December 31st 2012:

Entity	Sales	Other income	Other expenses**)	Finance costs**)	Purchases**)	Liabilities under borrowings**)	Prepaid deliveries	Trade receivables	Trade payables**)
Pfleiderer Service GmbH	0	131	0	1,846	3,947	33,269	0	0	497*
Pfleiderer Aktiengesellschaft	8	0	0	7,928	4,173	150,881	0	0	4,737
Pfleiderer Schweiz AG	0	0	0	0	0	0	0	0	32
Pfleiderer Holzwerkstoffe GmbH & Co. KG	905	0	0	0	203	0	0	23	0
Pfleiderer Holzwerkstoffe Verwaltungs GmbH	0	0	0	0	0	0	0	28	0
Wodego GmbH	29,608	0	0	0	474	0	0	992	45
Thermopal GmbH	5,145	0	0	0	21	0	0	0	21
Pfleiderer Industrie GmbH	30,501	0	0	0	94	0	0	1,505	27
Jura Speditions GmbH	0	0	0	0	3,813	0	0	0	746
Duropal GmbH	123	0	0	0	9,395	0	0	6	642
BHT Bau + Holztechnik Thüringen GmbH	0	0	0	0	0	0	0	0	0
Kunz Faserplattenwerk Baruth GmbH	38,939	0	0	0	0	0	0	5,043	0
Pergo (Europe) AB	210	0	0	0	0	0	0	0	0
Pergo Inc.	0	0	0	0	0	0	0	0	0
Uniboard Canada Inc.	4	0	0	0	0	0	0	0	0
Pfleiderer France S.A.S.	0	0	0	0	2	0	0	0	2
Pfleiderer B.V.	0	0	0	0	29	0	0	0	6
Pfleiderer Industrie Limited	0	0	0	0	17	0	0	0	9
Blitz	0	0	5,261	0	0	0	0	0	8,607
Pfleiderer Engineering International GmbH	0	0	0	0	1,863	0	0	0	910
Total	**105,443**	**131**	**5,261**	**9,774**	**24,031**	**184,150**	**0**	**7,597**	**16,281**

Pfleiderer Grajewo S.A. is a subsidiary of Pfleiderer Service GmbH; Atlantik SA is the ultimate parent.

*Trade payables of Pfleiderer Services include investment commitments of PLN 37 thousand.

(all amounts in PLN thousand)

** Following execution of the conditional agreement for the sale of 100% of shares in Pfleiderer OOO of Russia and disposal of Pfleiderer MDF OOO assets. The Group classified the subsidiaries' assets as held for sale and their respective equity and liabilities as liabilities related to assets held for sale. As at December 31st 2012, both subsidiaries disclosed material related-party transactions of (enclosed in the table above):
- Other expenses: PLN 5,261 thousand
- Finance costs: PLN 7,734 thousand
- Purchases: PLN 1,508 thousand
- Liabilities under borrowings: PLN 150,881 thousand
- Trade payables: PLN 12,828 thousand

Related-party transactions as at December 31st 2011:

Entity	Sales	Other expenses	Finance costs	Purchases	Liabilities under borrowings	Prepaid deliveries	Trade receivables	Trade payables
Pfleiderer Service GmbH	327	0	2,214	10,141	33,308	0	1,344	4,104
Pfleiderer Aktiengesellschaft	2	0	7,604	6,030	154,646	0	0	5,097
Pfleiderer Schweiz AG	0	0	0	0	0	886	0	35
Pfleiderer Holzwerkstoffe GmbH & Co. KG	0	0	0	554	0	0	0	548
Wodego GmbH	40,934	0	0	304	0	0	2,888	4
Thermopal GmbH	5,137	0	0	0	0	0	389	0
Pfleiderer Industrie GmbH	28,421	0	0	12,744	0	0	2,097	7
Jura Speditions GmbH	30	0	0	2,847	0	0	0	484
Duropal GmbH	84	0	0	5,268	0	0	19	0
BHT Bau + Holztechnik Thüringen GmbH	265	0	0	0	0	0	0	0
Kunz Faserplattenwerk Baruth GmbH	9,629	0	0	139	0	0	627	0
Pergo (Europe) AB	346	0	0	59	0	0	0	0
Pergo Inc.	19	0	0	0	0	0	0	0
Pfleiderer France S.A.S.	0	0	0	11	0	0	0	0
Pfleiderer B.V.	0	0	0	17	0	0	0	0
Pfleiderer Industrie Limited	0	0	0	24	0	0	0	1
Blitz	0	427	0	0	0	0	0	459
Pfleiderer Engineering International GmbH	0	0	0	673	0	0	0	1,188
Total	**85,194**	**427**	**9,818**	**38,811**	**187,954**	**886**	**7,364**	**11,927**

(all amounts in PLN thousand)

Remuneration of members of the Management and Supervisory Boards

Remuneration of members of the Parent's Management Board paid and payable for the reporting period was as follows:

Name	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Wojciech Gątkiewicz	918	735
Dariusz Tomaszewski	513	456
Rafał Karcz	441	369
Radosław Wierzbicki	522	460
	2,394	**2,020**

In addition, members of the Parent's Management Board received the following remuneration for holding positions at Pfleiderer Prospan S.A.:

Name	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Wojciech Gątkiewicz	905	735
Dariusz Tomaszewski	513	456
Rafał Karcz	428	369
Radosław Wierzbicki	513	453
	2,359	**2,013**

In addition, in 2011 Mr Rafał Karcz served as the President of the Management Board, and Mr Dariusz Tomaszewski and Mr Radosław Wierzbicki held the positions of Member of the Management Board of Pfleiderer MDF Sp. z o.o., without receiving any remuneration for the services rendered.

As at December 31st 2012, Mr Dariusz Tomaszewski, member of the Management Board of Pfleiderer Prospan S.A., had outstanding debt of PLN 26 thousand, under a loan taken out in 1997 from the Privatisation Fund to finance the purchase of Prospan shares.

As at December 31st 2012, the other members of the Parent's Management Board had no outstanding loan-related debt from the Group.

As at December 31st 2012, the number of Pfleiderer Grajewo shares held by the members of the Management and Supervisory Boards was as follows:

- Mr Wojciech Gątkiewicz, President of the Management Board – 5,400 shares
- Mr Rafał Karcz, Member of the Management Board – 3,472 shares
- Mr Dariusz Tomaszewski, Member of the Management Board – 4,108 shares
- Mr Radosław Wierzbicki, Member of the Management Board – 2,000 shares.

(all amounts in PLN thousand)

The managerial contract with Mr Rafał Karcz, member of the Management Board, contains a provision entitling Mr Karcz to a one-off termination benefit equal to one-month remuneration if the contract is terminated by notice.

The managerial contract with Mr Dariusz Tomaszewski, member of the Management Board, contains a provision entitling Mr Tomaszewski to a one-off termination benefit equal to one-month remuneration if the contract is terminated by notice.

The managerial contract with Mr Wojciech Gątkiewicz, President of the Management Board, in effect as of January 1st 2012, provides for a six-month notice period.

Remuneration paid to the members of the Parent's Supervisory Board in the reporting period was as follows:

	Dec 1 2012 Dec 31 2012	Dec 1 2011 Dec 31 2011
Woźniak Jan	91	48
Overdiek Hans	61	0
Hammerschmidt Gerd	15	0
Schapka Jochen	78	0
Von Werder Hans - Kurt	71	0
Wolff Michael	157	0
	473	48

As at December 31st 2012, the members of the Parent's Supervisory Board had no outstanding loan-related debt from the Company.
As at December 31st 2012, Jan Woźniak, Member of the Supervisory Board, held 10,000 shares in Pfleiderer Grajewo S.A.

The other members of the Parent's Supervisory Board did not hold any shares in the Parent.

31 Supplementary information to the consolidated statement of cash flows

Structure of cash and cash equivalents

	Dec 31 2012	Dec 31 2011
Cash in hand and at banks	17,518	19,586
Cash disclosed in the consolidated statement of cash flows	**17,518**	**19,586**

(all amounts in PLN thousand)

Change in liabilities

	Dec 31 2012	Dec 31 2011
Change in trade and other payables	(12,350)	24,010
Increase/(decrease) in investment liabilities	(1,904)	(5,807)
Settled prepayments	3,116	0
Change in liabilities	**(11,138)**	**18,203**

32 Court proceedings

On April 2nd 2012, Pfleiderer Grajewo S.A. (the parent) and Pfleiderer Prospan S.A. (a subsidiary) received a decision of the President of the Office of Competition and Consumer Protection, dated March 30th 2012, concerning the instigation of anti-trust proceedings on suspicion that Kronospan Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Kronopol Sp. z o.o., Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A. acted in collusion to frustrate competition on the domestic chipboard and fibreboard markets.

During the proceedings, Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A., its subsidiary, provided additional information required by the Office. At present, the Pfleiderer Grajewo Management Board is not able to assess the risk based on the information available to it or determine the estimated closing date of the proceedings.

33 Events subsequent to the end of the reporting period

- Following a preliminary conditional agreement dated October 2012, on January 23rd 2013, Pfleiderer Grajewo S.A., as the seller, and Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., as the buyers, entered into a final agreement for sale of a 100% interest in Pfleiderer OOO of Russia as well as the assets belonging to Pfleiderer MDF OOO, its subsidiary in Russia and joint venture Blitz 11-446 GmbH in Germany

  In addition to the sale of the abovementioned assets designated for the MDF project in Russia, Pfleiderer MDF OOO will sell assets under construction to Pfleiderer OOO, comprising in particular land owned by Pfleiderer MDF OOO, for a selling price of EUR 3,000 thousand (PLN 12,510 thousand).

  The Parent's proceeds from the transaction totalled EUR 157,485 thousand (PLN 656,711 thousand) maximally and comprised the preliminary selling price of the shares of EUR 111,884 thousand (PLN 466,555 thousand) and EUR 31,600 thousand (PLN 131,776 thousand), which the Parent will receive as repayment of intra-group loans advanced to Pfleiderer OOO. Moreover, EUR 14,000 thousand (PLN 58,380 thousand) was deposited in an escrow account as security for liabilities under the share sale agreement. The preliminary selling price of the shares will be ultimately adjusted after the transaction is closed, based on audited financial statements of Pfleiderer OOO prepared as at the sale transaction closing date.

  The selling price of Pfleiderer MDF OOO assets is EUR 7,520 thousand (PLN 31,358 thousand) and will be deposited in an escrow account. The selling price of Blitz assets was agreed at EUR 33,874 thousand (PLN 141,256 thousand), less EUR 1,000 thousand (PLN 4,170 thousand) deposited in an escrow account. The total selling price of Blitz assets, Pfleiderer MDF assets and assets under construction amounts to EUR 44,394 thousand (PLN 185,124 thousand).

The Blitz assets and Pfleiderer MDF OOO assets comprise the components of a complete production line designed for the MDF production plant project in Russia.

At the same time, under the agreements, the Pfleiderer Grajewo Group will lose control over its subsidiary Pfleiderer MDF OOO.

- On January 29th 2013, Pfleiderer Grajewo S.A. finalized an early repayment of part of the syndicated credit facility incurred under a credit facility agreement concluded on March 16th 2010 by the Company, Pfleiderer Prospan S.A. and Silekol Sp. z o.o. with a bank syndicate comprising Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

A substantial part of the facility was repaid using proceeds from the sale of shares in Pfleiderer OOO. From January 24-29 2013, Tranche A of PLN 460mio was repaid in full, while on January 29th 2013, tranche B was repaid in part (PLN 88,375 thousand).

- On February 12th 2013, Mr Hans-Kurt von Werder resigned from the position of Member of the Parent's Supervisory Board, effective from February 26th 2013.

- On February 22nd 2013, Pfleiderer AG, the intermediate parent company, changed its legal form from a joint-stock company into a limited liability company. The transformation will significantly contribute to the streamlining of the structure and internal processes. The new and sole owner is Atlantik S.A. of Luxembourg, an investment firm.

- In accordance with a resolution of the Extraordinary General Meeting, on February 26th 2013, Mr Richard Mayer was appointed Member of the Parent's Supervisory Board.

- On February 26th 2013, Pfleiderer Service GmbH, an intermediate company, initiated a tender offer for Pfleiderer Grajewo S.A. (the Parent) shares. In accordance with the offer, Pfleiderer Service GmbH, as the intermediate parent of the Pfleiderer Grajewo Group, holds Pfleiderer Grajewo S.A. shares, representing 65.11% of the total number of the Parent shares, and intends to acquire 443,664 shares in Pfleiderer Grajewo S.A., representing 0.89% of the total number of the Parent shares.

As a result of the tender offer, the bidder intends to hold directly 32,751,840 shares in the Parent, representing 66% of the Parent’s share capital and 66% of the total vote at the Parent’s General Meeting.

- March 18th 2013 the syndicated loan was fully repaid. Loan was concluded between Parent, Parent’s 2 subsidiaries Pfleiderer Prospan SA and Silekol Sp. z o.o. and bank syndicate consisted of Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska SA (previously Fortis Bank Polska S.A.) and Bank Gospodarki Zywnościowej S.A.. All securities connected to the loan were or, referring to registered pledge and mortgages, will be removed.

- On April 16th 2013 the Parent company acquired 100% shares at nominal value of RUB 10,000 of Grajewo OOO seated in Novgorod, Russia. The purchase price amounted to EUR 2,000. Grajewo OOO is a distributing company active on Russian market.

34 Accounting estimates and judgement

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Notes to the annual consolidated financial statements, Chapter 6, Section d (v) – useful lives of property, plant and equipment and intangible assets – determined based on useful lives of property, plant and equipment and intangible assets and verified at least annually.
- Note 3, 10 – Goodwill, recoverable value of goodwill, recoverable value of non-financial non-current – if there is an indicator for impairment, the recoverable amount is determined by higher of fair value less cost to sell or value in use (based on discounted cash flows) by applying the appropriate discount rate (cost of capital, growth rates),
- Nota 9 – Corporate income tax – recognition of corporate income tax or settlement of losses carried forward based on assumption that in future the taxable income will be generated,
- Note 11 – Derecognition of trade receivables based on factoring arrangements – assessment of control and continuous involvement,
- Note 23 – Measurement of liabilities under defined employee benefits – employee benefits are evaluated by actuary. The valuation is based on assumptions regarding interest rates, increase of salaries levels, inflation rate, employment rotation rate,
- Note 24 and 29 – Provisions and contingent liabilities - recognition of provisions and contingent liabilities requires estimate of the probable out flow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period,

- Note 26 – Valuation of financial instruments – measurement of the fair value of financial instruments is determined via use of financial instruments valuation models,
- Note 27 – Classification of lease agreements – classification of the lease agreements as finance lease or operating lease on the basis of business nature analysis.

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

Irena Lenczewska
Person responsible for the accounting records

Grajewo, April 30th 2013