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**PFLEIDERER GRAJEWO GROUP
ANNUAL DIRECTORS' REPORT
ON THE OPERATIONS OF THE PFLEIDERER GRAJEWO GROUP
FOR THE PERIOD JANUARY 1ST
– DECEMBER 31ST 2012**

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

Contents

1.	<i>Financial highlights</i>	3
2.	<i>General information</i>	4
3.	<i>Structure of the Group as at December 31st 2012</i>	7
4.	<i>Pfleiderer Grajewo S.A.'s shareholder structure</i>	8
5.	<i>External and internal factors with a bearing on the Group's business:</i>	8
6.	<i>Current and future activities of the Group</i>	9
7.	<i>Information material to the assessment of the personnel, assets, financial standing and performance of the Group and their changes, and for the assessment of the Group's ability to fulfil its obligations</i>	10
8.	<i>Production and sales structure</i>	12
9.	<i>Procurement</i>	14
10.	<i>Economic and financial data</i>	15
11.	<i>Use of bank borrowings</i>	15
12.	<i>Feasibility of Pfleiderer Grajewo Group's investment plans for 2012</i>	17
13.	<i>Marketing activities in 2012</i>	18
14.	<i>Material related-party transactions in 2012</i>	20
15.	<i>Management of Pfleiderer Grajewo Group's financial resources in 2012</i>	20
16.	<i>Financial instruments</i>	22
	<i>Overview of the financial instruments</i>	22
17.	<i>Financial risks related to the Group's operations</i>	25
18.	<i>Court proceedings</i>	29
19.	<i>Corporate governance</i>	29
20.	<i>Auditor</i>	31
21.	<i>Audit Committee</i>	31
22.	<i>Non-recurring events affecting the Pfleiderer Grajewo Group's financial performance</i>	32
23.	<i>Changes in the composition of the Parent's Management Board</i>	32
24.	<i>Changes in the composition of the Parent's Supervisory Board</i>	32
25.	<i>Other activities of the Group</i>	32

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

1. Financial highlights

	PLN '000		EUR '000	
	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Revenue	1,789,943	1,725,231	428,873	416,712
Operating profit	153,237	136,205	36,716	32,899
Profit/(loss) before tax	60,587	38,747	14,517	9,359
Net profit/(loss) attributable to owners of the parent	49,815	33,208	11,936	8,021
Net cash from operating activities	227,523	175,404	54,515	42,367
Net cash from investing activities	(27,723)	(33,602)	(6,642)	(8,116)
Net cash from financing activities	(192,111)	(142,084)	(46,030)	(34,319)
Total net cash flow	7,689	(282)	1,843	(68)
Basic earnings/(loss) per share (PLN / EUR)	1.00	0.67	0.24	0.16
Diluted earnings/(loss) per share (PLN/EUR)	1.00	0.67	0.24	0.16
PLN/EUR average exchange rate			4.1736	4.1401

	PLN '000	PLN '000	EUR '000	EUR '000
	Dec 31 2012	Dec 31 2011	Dec 31 2012	Dec 31 2011
Total assets	1,807,032	1,935,970	442,012	438,320
Liabilities	1,221,867	1,369,489	298,877	310,064
Non-current liabilities	225,978	941,509	55,276	213,165
Current liabilities	995,889	427,980	243,601	96,898
Equity	585,165	566,481	143,135	128,256
Share capital	16,376	16,376	4,006	3,708
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000
Book value per share (PLN/EUR)	11.79	11.42	2.88	2.59
PLN/EUR exchange rate as at the reporting date			4.0882	4.4168

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

2. General information

The Pfeiderer Grajewo Group consists of single-division enterprises. The Group's parent is Pfeiderer Grajewo S.A. whose principal place of business in Grajewo, a town in north-eastern 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 18 2002, the Parent's Management Board received the decision of the District Court of Białystok to enter the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Parent name was changed to Pfeiderer Grajewo S.A. The registered office of Pfeiderer Grajewo S.A. is situated at ul. Wiórowa 1, Grajewo, Poland. The Parent shares are publicly traded. In accordance with the Polish Classification of Business Activities, Pfeiderer Grajewo S.A. is registered under No. 1621 Z. Tax Identification Number (NIP): 719-10-00-479, Industry Identification Number (REGON): 450093817.

Below are presented the other entities of the Pfeiderer Grajewo Group:

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

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

Pfeiderer 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

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

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

Silekol Sp. z o.o. – a company entered into 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.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

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. – a company entered into the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under entry No. KRS 149282, on November 24th 1999.

Industry Identification Number (REGON): 276746151
Tax Identification Number (NIP): 629-215-85-14
Registered office: ul. Wiórowa 1, 19-200 Grajewo, Poland

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

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

Pfleiderer Services Sp. z o.o. of Grajewo – a company entered into the National Court Register by the District Court of Białystok, XII Commercial Division of the National Court Register in Białystok, under 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

The company has suspended its operations.

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 Pfeiderer Grajewo S.A., Pfeiderer Prospan S.A., Pfeiderer MDF Sp. z o.o. and Pfeiderer OOO consists in the manufacture and veneering of wood and wood-based products, impregnation of paper, trade in Poland and abroad, provision of industrial services related to the companies' core business, as well as other services based on the companies' resources. At present, Pfeiderer MDF OOO constructs an MDF board production plant. The other companies provide services and supply raw materials to the Group entities.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

Information on the other entities' business profiles and inclusion of the entities in consolidation is presented in the notes to the annual consolidated financial statements.

As at the end of the reporting period, the composition of the Parent's 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 |

The same persons comprising the Parent's Management Board also managed the operations of its subsidiary Pfeiderer Prospan S.A. of Wieruszów.

The table below presents the composition of the Management Boards of the other consolidated entities as at December 31st 2012:

	Jura Polska Sp. z o.o.	Pfeiderer MDF Sp. z o.o.	Silekol Sp. z o.o.	Pfeiderer OOO	Pfeiderer MDF OOO
President	Krzysztof Brzostek	Rafał Karcz	Janusz Zowade	Vladimir Vladimirovich Kotenev	Vladimir Vladimirovich Kotenev
Member	-	Dariusz Tomaszewski	Marek Filusch	Tomasz Mika	Tomasz Mika
Member	-	Radosław Wierzbicki	-	Juergen Winkler	Andrzej Valerevich Nicolajev
Member	-	-	-	Dimitry Lobanov	-

As at December 31st 2012, Unifloor did not have a Management Board as the company was in the process of liquidation. The company's liquidator is Mr Ryszard Gruszka.

On March 23rd 2012, the Extraordinary General Meeting removed Mr Grzegorz Woelke from the position of Member of the Management Board of Jura Polska Sp. z o.o.

As at December 31st 2012, the composition of the Parent's Supervisory Board was as follows:

- | | |
|-------------------------|-----------------------------------|
| 1. Michael Wolff | Chairman of the Supervisory Board |
| 2. Gerd Hammerschmidt | Member |
| 3. Jan Woźniak | Member |
| 4. Jochen Schapka | 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 Pfeiderer Grajewo S.A. with effect from October 31st 2012.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

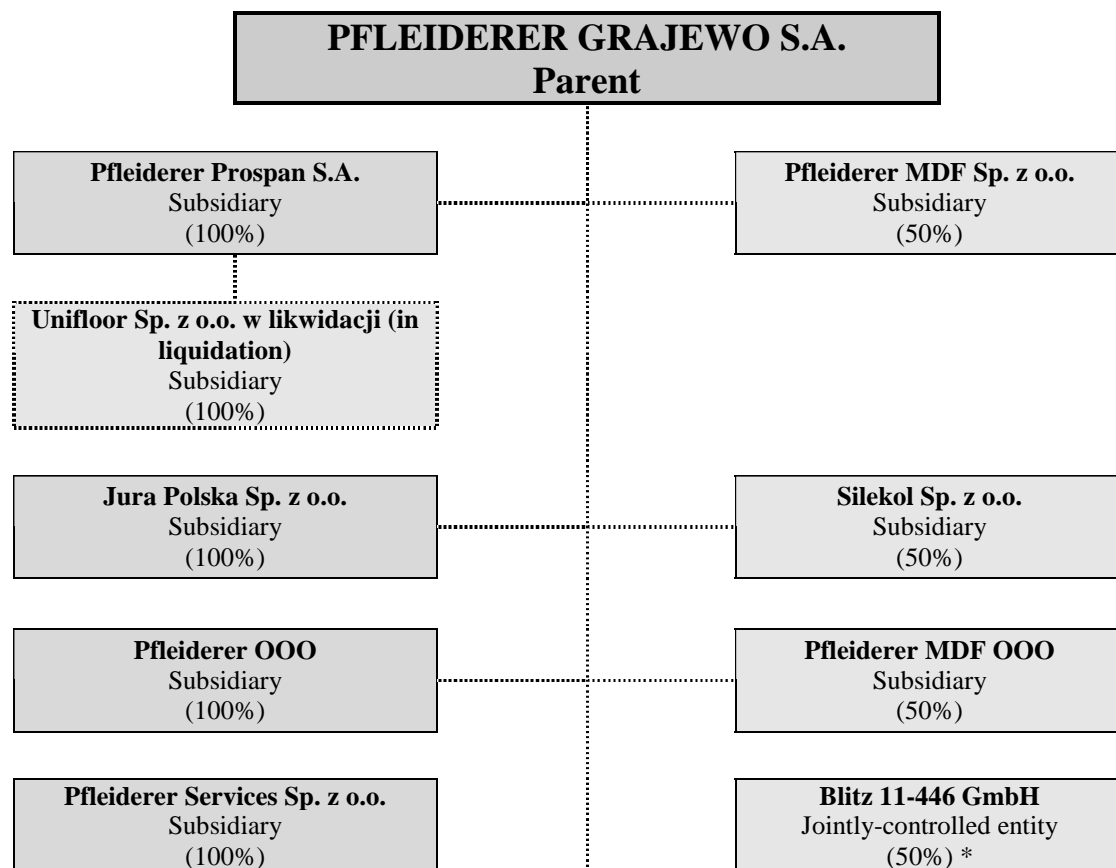
In accordance with a resolution of the Extraordinary General Meeting, on November 7th 2012, Mr Gerd Hammerschmidt was appointed Member of the Parent's Supervisory Board.

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.

3. Structure of the Group as at December 31st 2012

Structure of the Group as at December 31st 2012:



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

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

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

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 Development ("EBRD") an equity interest in Pfleiderer OOO of 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).

4. Pfleiderer Grajewo S.A.'s shareholder structure

Shareholder structure as at 30th April 2013	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Pfleiderer Service GmbH	32,308,176	65.11%	32,308,176	65.11%
Aviva OFE Aviva BZ WBK	4,928,816	9.93%	4,928,816	9.93%
ING OFE	2,639,144	5.32%	2,639,144	5.32%
Other shareholders	9,747,864	19.64%	9,747,864	19.64%
Total	49,624,000	100.00%	49,624,000	100.00%

In the period from January 1st 2012 to the date of this Directors' Report on the Operations of the Pfleiderer Grajewo Group, the number of the Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

The information on the number of the Company shares held by Aviva OFE is sourced from the most recent notification of shareholding change, received by the parent on July 10th 2007. The information on the number of the Company shares held by ING OFE is sourced from the most recent notification of shareholding change, received by the parent on June 5th 2009.

The Group is not aware of any other changes in its shareholder structure.

5. External and internal factors with a bearing on the Group's business:

External factors with a bearing on the Group's business:

- Broader collaboration with customers, which is based on long-term framework agreements, providing the parties with assurance of stable cooperation and lasting development.
- Customer insolvency risk – the Group monitors the financial liquidity of its customers on an ongoing basis, mitigating the customer insolvency risk by using trade credit insurance.
- Close cooperation with suppliers – key raw materials purchased by the Group include wood and wood waste, decorative paper, chemical substances, and machine parts. The Group mitigates the related risk by using diversified sources of supplies. Increases in the prices of the raw materials affect the Group as well as its competitors and for this reason do not have an adverse impact on the Group's competitive position.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

- Currency risk – the Group does not incur any significant currency risk. It monitors its exposure to exchange-rate fluctuations on an ongoing basis and relies on natural hedging and forward transactions to hedge the risk.
- Seasonality – sales fall in the second quarter of a year, while sales peak is observed in the second half of the calendar year. Seasonal changes do not give rise to a significant risk for the Group as lower sales in the period are accompanied by lower purchases of raw materials. The Group's liquidity remains relatively stable over the second quarter.

Internal factors with a bearing on the Group's business:

- Technological process – the technologies employed by the Group result in exposure to fire hazard. To mitigate that risk, the Group uses a number of technical and organisational safeguards. There is no risk of unscheduled process stoppages at the Group, as its plant and equipment is relatively new.
- Debt risk – as the parent of the other Group members, Pfleiderer Grajewo S.A. bears all the burdens related to the financing of investment projects. The debt is monitored on an ongoing basis. To mitigate the liquidity risk, the Group uses a full spectrum of available financial instruments.

6. Current and future activities of the Group

a) Plans and development prospects for 2013

- Focus on the furniture sector and strengthening of the Company's position as a leading full-range supplier for the sector.
- Promotion of the Premium brands and product lines.
- Review of quality and technical parameters of selected products in order to respond to customers' requirements.
- Expansion onto European markets.
- Implementation of new technical systems and restructuring of the Company through further optimisation of the production processes and cost savings programme.
- Balancing of the financing structure, improvement of liquidity and reduction of borrowing costs.
- Promotion of the Pfleiderer brand as a modern and continuously developing organisation, which implements state-of-the-art technologies and respects the natural environment.
- Modernisation of the production plant and equipment in order to ensure the highest quality of products and enhancement of production efficiency.

b) In 2012, the efforts of Pfleiderer Grajewo S.A. were focused on the following tasks:

- 1 Enhancing efficiency and production processes through tight cost control.
- 2 Improving the quality of products and services.
- 3 Optimisation efforts designed to improve the Group entities' operating efficiency.
- 4 Securing of wood supplies.
- 5 Ensuring financial liquidity of the Group.
- 6 Promoting the Company's image as a financially stable and reliable business partner.
- 7 Strengthening of Pfleiderer's market position by promoting the Company's brand and vision.
- 8 Analysis of the Group's financial standing, current sales strategy and organisation of the production and distribution processes in order to improve efficiency and identify areas in need of restructuring.
- 9 Analysis of the Group's external environment with a view to developing a new model of cooperation with customers.
- 10 Entering into negotiations and specifying the terms of the sale of shares in Pfleiderer OOO and

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

the assets designated for Pfeiderer MDF's project in Russia.

7. Information material to the assessment of the personnel, assets, financial standing and performance of the Group and their changes, and for the assessment of the Group's ability to fulfil its obligations

7.1 Financial standing of the Pfeiderer Grajewo Group

The structure of financing of the Group's assets was as follows as at the reporting date:

<i>all amounts in PLN thousand</i>	Dec 31 2012	Dec 31 2011
Equity (attributable to owners of the parent)	527,392	495,041
Non-controlling interests	57,773	71,440
Total equity	585,165	566,481
Non-current liabilities	225,978	941,509
Long-term capital (total equity + non-current liabilities)	811,143	1,507,990
Current liabilities	995,889	427,980

The Pfeiderer Grajewo Group finances its operations primarily with bank borrowings. The bank borrowings are advanced to Pfeiderer Grajewo S.A. or to project vehicles (project finance), i.e. Pfeiderer OOO and Pfeiderer MDF Sp. z o.o.

Additionally, the Group is financed with loans advanced by its shareholders (Pfeiderer AG and Pfeiderer Service GmbH). The loans are primarily used to finance the operations of Pfeiderer MDF OOO in Russia, and, to a lesser extent, Pfeiderer Grajewo S.A. and Pfeiderer MDF Sp. z o.o.

Moreover, the Pfeiderer Grajewo Group supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. a o.o. The above financing of Pfeiderer Grajewo S.A. and Pfeiderer Prospan S.A. and Pfeiderer MDF Sp. z.o.o of up to PLN 200m is an off-balance sheet item. Additionally Silekol Sp. z o.o. signed non-recourse factoring agreement with WBK Faktor Sp. z o.o. with a limit of 15 million PLN. All of these contracts are off-balance sheet.

The internal financing in the Pfeiderer Grajewo Group comprises loans advanced by Pfeiderer Grajewo S.A. to its subsidiaries: Pfeiderer OOO, Pfeiderer MDF OOO, and Silekol Sp. z o.o., as well as issues and purchases of short-term notes (commercial papers). The notes are issued by Pfeiderer Grajewo S.A. and acquired by Pfeiderer Prospan S.A. The issuance programme and the loans are designed to provide financing to all of the Group's entities and optimise cash management within the Group.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

7.2 Workforce and remuneration at the Pfeiderer Grajewo Group

As at December 31st 2012, the Group employed 1,625 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board. The Group's employment structure as at the last day of the reporting period was as follows:

Employees	Dec 31 2012	Dec 31 2011
- direct production employees	802	801
- indirect production employees	405	393
- administration, office and other employees	418	445
Total	1,625	1,639

Workforce at Group companies:

Group	Workforce in 2012	Employees directly involved in production	Employees indirectly involved in production	Administration, office and other employees
PFLEIDERER GRAJEWO S.A.	567	276	131	160
Pfeiderer Prospan S.A.	429	238	93	98
Pfeiderer OOO Russia	362	114	156	92
Jura Polska Sp. z o.o.	27	10	0	17
Silekol Sp. z o.o.	86	44	25	17
Pfeiderer MDF Sp. z o.o.	154	120	0	34
Total	1,625	802	405	418

Remuneration of the members of the Pfeiderer Grajewo Management Board, including bonuses paid for the period January 1st–December 31st 2012 was as follows:

1.	President of the Management Board - Wojciech Gątkiewicz	PLN 918 thousand
2.	Member - Rafał Karcz	PLN 441 thousand
3.	Member - Dariusz Tomaszewski	PLN 513 thousand
4.	Member - Radosław Wierzbicki	PLN 527 thousand

The same persons serve on the Management Board of Pfeiderer Prospan S.A. The remuneration of the members of the Management Board of Pfeiderer Prospan S.A. for the same period was as follows:

1.	President of the Management Board - Wojciech Gątkiewicz	PLN 905 thousand
2.	Member - Rafał Karcz	PLN 428 thousand
3.	Member - Dariusz Tomaszewski	PLN 513 thousand
4.	Member - Radosław Wierzbicki	PLN 512 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.

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

The managerial contract with Mr Wojciech Gątkiewicz, President of the Management Board, 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:

PLN '000

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

As at December 31st 2012, the members of the Management and Supervisory Boards of Pfeiderer Grajewo S.A. had no outstanding debt to the Parent under loans. At Pfeiderer Prospan S.A., one member of its Management Board, Mr Dariusz Tomaszewski, had an outstanding debt of PLN 26 thousand as at December 31st 2012. This liability is related to a loan taken out from the Privatisation Fund in 1997 to finance acquisition of shares in Pfeiderer Prospan S.A.

7.3 Number of Pfeiderer Grajewo S.A. shares held by the management staff of Pfeiderer Grajewo S.A.

As at the date of this report holdings of Company shares owned by the Management Board members were as follows:

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

As at the date of release of this report, Mr. Jan Woźniak, Member of the Supervisory Board held 10,000 shares in Pfeiderer Grajewo S.A. The other members of the Supervisory Board held no Company shares.

8. Production and sales structure

8.1 Production volume and structure

In 2012 and 2011, the production volumes of the four main product groups at the three Polish companies of the Group (Pfeiderer Grajewo S.A., Pfeiderer Prospan S.A. and Pfeiderer MDF Sp. z o.o.) and at the Russian subsidiary were as follows:

		Dec 31 2012	Dec 31 2011
Gross production of raw chipboards	thousand m ³	1,539.0	1,519.3

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

Melamine-faced chipboards	thousand m ²	54,749.0	52,230.8
Raw MDF boards	thousand m ³	197.5	223.9
Lacquered MDF boards	thousand m ²	26,717.2	24,158.1

In 2012, the production of raw and melamine-faced chipboard increased slightly. In 2012, the Group did not use its production capacity in full.

Compared with 2011, 2012 saw a 12% decrease in the production of raw MDF board and an 11% increase in production of melamine-faced MDF board.

8.2 Sales volume and structure

Revenue reported by the Group in 2012 was PLN 1,789,943 thousand, up 3.8% year on year.

The Group's export sales in 2012 improved significantly, having increased by 18% year on year. The table below presents an analysis of revenue by products, goods, materials, and services.

By product group	Jan 1–Dec	% share	Jan 1–Dec	% share
	31 2012		31 2011	
Revenue from sales of products	1,707,015	95.4%	1,618,043	93.8%
Chipboard	1,135,584	63.5%	1,165,266	67.6%
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%	5,348	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%

Sales volumes of the Pfleiderer Grajewo Group's key products:

By product group (thousand m³)	2012	2011
Chipboard	1 509,8	1 543,6
MDF boards	194,6	221,5
Total product sales volume	1 704,4	1 765,1

The furniture industry continues to be the most important sector for Pfleiderer Grajewo Group as it accounts for 90% of its total sales. The Group takes steps to more effectively place its products on the interior design market. On the other hand, it focuses efforts on expanding its presence on the construction market, which is becoming increasingly more attractive for chipboard manufacturers in Poland.

The long-term sales strategy of the Pfleiderer Grajewo Group is based on three key distribution channels:

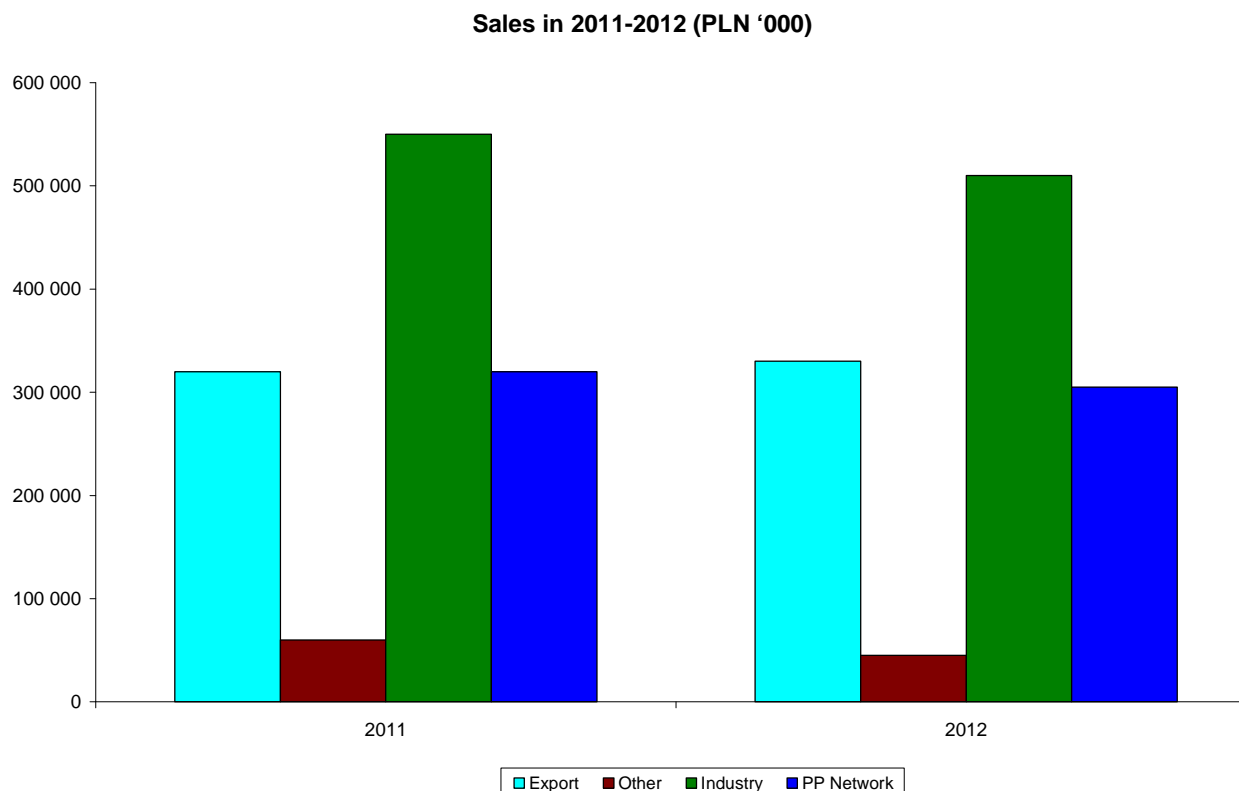
1. Sales to industrial customers
2. Sales to the Pfleiderer Partner dealership network (PP network)
3. Export sales

The Group's sales data comprises sales of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., and Pfleiderer MDF Sp. z o.o. The Group's sales by distribution channels in 2011–2012 were as follows:

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

Figure: Sales structure in 2011–2012 (PLN thousand)



In the Polish market, direct sales to large and medium-sized furniture manufacturers and the Pfeiderer Partner network continued to represent the most important distribution channels. Relative to the previous year, in 2012 sales through the domestic distribution channels fell as a result of weaker demand from the furniture industry, lower sales of HDF boards to the Swedwood Group and lower sales of MFP boards. Sales to large furniture manufacturers declined 9%, to the Pfeiderer Partner network – by 2%, and to the other domestic distribution channels – by 21%. Export sales increased by 10% in the reporting period.

The shares of individual distribution channels in the structure of sales in 2012 relative to 2011 changed as follows: The share of exports rose from approximately 25% to approximately 29%. The share of sales to the Pfeiderer Partner wholesale network was stable, at approximately 25%. The share of direct sales to large and medium-sized furniture manufacturers declined from ca. 45% to ca. 42%, and the share of sales through other distribution channels fell from ca. 5% to ca. 4%.

9. Procurement

Just like in the previous year, in 2012 the Group's plants operating in Poland and Russia relied on the raw wood from their traditional sources, located in close proximity to the plants.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

The share of individual product groups in total supplies varied slightly between the plants due to their different production profiles, local markets, or the current pricing of various raw materials.

In Poland, forest wood represented 31% of all supplies, while by-products of the wood processing industry accounted for 62% of the total. The share of recycled raw material rose to 7%. Polish wood accounted for the largest share of the supplies; in 2012 it represented 93% of the total volume purchased.

In Russia, the share of round timber continued on a downward trend: in 2012 it accounted for 68% of the total volume purchased. The share of wood processing by-products and waste rose to 32% of total supplies. As in the previous years, nearly all wood supplies (above 80%) came from the Novgorod area.

10. Economic and financial data

The cost of raw materials and consumables continues to be the largest component of the Group's cost structure. Also the cost of services accounts for a significant portion of the Group's cost base. This follows from the fact that certain auxiliary functions were outsourced and certain types of services were contracted from external companies; also, there has been a gradual growth of transport costs related to product sales and materials procurement. Finance costs are an increasingly important component of profit and loss, particularly at the Parent. This is a result of the large capital expenditure made by the Group. Other items of profit and loss did not materially change relative to the previous periods.

In 2012 and 2011, the Group earned the following sales margins:

	<u>Jan 1–Dec 31 2012</u>	<u>Jan 1–Dec 31 2011</u>
<u>Net profit/(loss)</u>		
Revenue	3.38%	2.25%
	<u>Jan 1–Dec 31 2012</u>	<u>Jan 1–Dec 31 2011</u>
<u>Net profit/(loss) (attributable to owners of the parent)</u>		
Revenue	2.78%	1.92%

11. Use of bank borrowings

PLNm	Dec 31 2012	Dec 31 2011
Debt under bank borrowings	678	831
Intra-Group loans	33	188
Cash	18	20
Net debt under bank borrowings	660	811

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

a) Syndicated credit facility agreement

As at December 31st 2012, Pfleiderer Grajewo S.A and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. used a PLN 457,254 thousand credit facility, used to refinance the Group's debt. The Group executed the credit facility agreement with a bank syndicate comprising the same institutions which had previously provided funding to the Company, i.e. Bank PEKAO S.A. (syndication agent), Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A.

The new facility, provided under an agreement of March 16th 2010, is split into two tranches:

- PLN 530,000 thousand Tranche A, in the form of a non-revolving facility to be used to repay the outstanding debt owed by the Parent and its Subsidiaries to the Banks;
- PLN 170,000 thousand Tranche B, in the form of a working capital revolving facility to be used to repay the outstanding debt owed by the Parent and its Subsidiaries to the Banks and to finance the Group's day-to-day operations.

In accordance with the agreement, the final repayment date for Tranche A is December 30th 2013, while Tranche B is to be repaid two years after execution of the credit facility agreement. Furthermore, under Tranche B bank guarantees and letters of credit may be issued.

The credit facility is secured with:

- o mortgages over the Parent's and the Subsidiaries' real estate, on which production facilities are located, up to the amount of PLN 1,400m;
- o registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of PLN 1,050m;
- o financial and registered pledge over the Group's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.;
- o financial and registered pledge over the Group's bank accounts;
- o assignment by way of security of the Group's plant and equipment intended to be used for the purpose of the MDF project in Russia.

As at December 31st 2012, debt outstanding under the bank borrowings used by the Parent was as follows:

- Tranche A: PLN 455,083 thousand
- Tranche B: PLN 2,171 thousand

On January 29th 2013, the Group made an early repayment of part of the syndicated credit facility. A substantial part of the facility was repaid using proceeds from the sale of shares in Pfleiderer OOO. The Parent repaid the full amount of Tranche A (PLN 460,000 thousand) and part of Tranche B (PLN 88,375 thousand).

Following the repayments, the total credit limit available under the facility (under Tranche B) is PLN 81,625 thousand. On March 18th 2013, the syndicated credit facility incurred by Pfleiderer Grajewo S.A. and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. with the bank syndicate was finally repaid.

b) Other bank borrowings

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

In 2012, Pfeiderer MDF Sp. z o.o. used bank borrowings. As at December 31st 2012, Pfeiderer MDF Sp. z o.o. was a party to the following credit agreements:

1. Investment facility of PLN 188.1m from PKO BP S.A. repayable by July 15th 2016.
2. Credit facility of up to PLN 57m, repayable by June 30th 2013. As at December 31st 2012, debt outstanding under the facility was PLN 32.4m.

As at December 31st 2012, Pfeiderer MDF Sp. z o.o.'s total debt outstanding under the facilities was PLN 220.5m.

Pfeiderer Prospan S.A. and Silekol Sp. z.o.o had no debt under bank borrowings.

For information on interest rates applicable to the credit agreements, see Note 22 of the consolidated financial statements.

As at December 31st 2012, debt outstanding under the bank borrowings taken out by the Group totalled PLN 678m.

As at December 31st 2012, the Group companies did not have any borrowings other than those described above.

In addition, Pfeiderer OOO had outstanding liabilities under the investment credit facility contracted with the European Bank for Reconstruction and Development (EBRD), with repayment schedule until October 11th 2013. As at December 31st 2012, the Group's debt under the facility was PLN 15.8m. In connection with execution of the conditional agreement for sale of shares in subsidiary Pfeiderer OOO of Russia, the Group classified its liability under the facility as a liability associated with assets held for sale (for details, see Note 19 to the consolidated financial statements of the Pfeiderer Grajewo Group).

c) Borrowings from related entities

Financing of the Pfeiderer Grajewo Group by Pfeiderer Germany is based exclusively on subordinated loans. All advanced loans are subordinated to bank borrowings, and must not be repaid prior to the bank borrowings, and banks treat them as equity. In addition, no sureties or guarantees are outstanding between Pfeiderer Germany and the Pfeiderer Grajewo Group.

As at December 31st 2012, liabilities under loans provided by related entities were PLN 33.3m (December 31st 2011: PLN 188m). For detailed information on loans from related entities, see Section 15 of the Directors' Report.

12. Defaults under bank borrowings and other debt instruments with respect to which no remedial action was taken by the end of the reporting period

As at December 31st 2012, no such events occurred.

13. Feasibility of Pfeiderer Grajewo Group's investment plans for 2012

In 2012, the Pfeiderer Grajewo Group incurred capital expenditure of PLN 25.8m.

PFLEIDERER GRAJEWO S.A.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

Operating expenditure in 2012: planned expenditure – PLN 21.4m; actual expenditure – PLN 7.8m.

The largest project planned for 2012 was the purchase and assembly of a lamination press for large-sized boards (PLN 12.5m), which was moved to Wieruszów in response to the market situation. Another planned project involved a high-pressure adhesive supply system – planned and actual expenditure of PLN 2.4m. In 2012, the Company also decided to purchase and install a line for the production of own dust (planned expenditure – PLN 4.9m); expenditure incurred in 2012 – PLN 1.2m; the project is planned for completion in 2013.

Expenditure of PLN 1.6m was incurred on the purchase of Microsoft licences.

The remaining expenditure of PLN 2.6m was spent on smaller projects scheduled for 2012.

PFLEIDERER PROSPAN S.A.

Operating expenditure in 2012: planned expenditure – PLN 4.4m; actual expenditure – PLN 5.7m.

The project concerning the high-pressure adhesive supply system, planned for 2012, was completed within the budget, i.e. PLN 1.3m. The remaining expenditure of PLN 4.4m was spent on smaller projects scheduled for 2012.

SILEKOL Sp. z o.o.

Operating expenditure in 2012: planned expenditure – PLN 4.7m; actual expenditure – PLN 5.8m.

The largest project planned for 2012 involved the steam turbine; expenditure planned for 2012 – PLN 3.2m, actual expenditure – PLN 4.6, total project value – PLN 4.6m.

The remaining expenditure of PLN 1.2m was spent on smaller projects scheduled for 2012.

PFLEIDERER MDF Sp. z o.o.

Operating expenditure in 2012: planned expenditure – PLN 1.1m; actual expenditure – PLN 1.0m.

Expenditure of PLN 1.0m covered mostly other minor operating projects (e.g. additional chain on the feeder supplying waste wood to the chipper, magnetic separator – wood chip transport, weco sprinkler system).

OOO PFLEIDERER

Operating expenditure in 2012: planned expenditure – PLN 8.8m; actual expenditure – PLN 3.9m.

The largest expenditure in 2012 was incurred to complete the shavings sorting project – PLN 2m. The remaining expenditure of PLN 1.9m was spent on smaller projects scheduled for 2012.

MDF OOO

In 2012, MDF OOO was not involved in any major investment projects.

14. Marketing activities in 2012

Marketing objectives:

- Development of the Premium brands and product lines;

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

- Finding new applications for the existing product mix;
- Strengthening Pfleiderer's position in local markets;
- Strengthening our position in the construction market;
- Developing new communication channels at Pfleiderer: designer/ kitchen studio/ contractor/ end user;

a) Objectives achieved in the furnishings and interior design market

Product policy

- Implementing trade and marketing standards for serving new markets and customers;
- Market launch of new laminated board line, GLOBAL COLLECTION, and new kitchen worktop line, LUXURY HOME STYLE;
- Market launch of HPL DUROPAL high-pressure laminates;

Communications policy

- Market launch of the non-flammable laminated board;
- Continued development of new products while reducing the number of slow-moving products; active management of the product portfolio;
- Development and implementation of "Birch POLAND!" ("Brzoza POLSKA!"), a unique project on the Polish decor design market, developed by Pfleiderer in partnership with Studio Rygalik and Interprint;
- Implementation of a new visualisation concept for the commercial offering at points of sale – a new showroom version for the PFLEIDERER PARTNER dealership network;
- Implementation of the concept of HPL laminates distribution centres – product launch at selected outlets of the PFLEIDERER PARTNER dealership network;
- Participation in the "Dekoratornia" project; presentation of the most interesting product solutions in a popular TV programme;
- Organisation of trainings and presentations as part of the "Pfleiderer Inspirations" programme for regional furniture manufacturers, architects and designers; presentation of current trends and features of the Pfleiderer offer in the context of the requirements of institutional clients and end users;
- Participation in the Łódź Design Festival; presentation of the "Birch POLAND!" project;
- Promotion of new items in the Pfleiderer product range fitted in the finished furniture products presented at the MEBLE furniture industry fair in Poznań;
- Product launching;
- Continuation of the "Pfleiderer Inspirations" mailing campaign - interior design visualisation featuring Pfleiderer's superior product designs;
- Active PR efforts and advertising initiatives were focused mainly on presenting inspiring solutions for home interiors and general public buildings;
- Fairs and events: participation in trade fairs in Poland and abroad, both as an exhibitor and participant of selected fair projects (Kiev, Nitra), participation in regional fairs and events organised by the Pfleiderer Partner network, both in Poland and abroad;
- Partnership with higher education institution; the PE-P project;
- Using the Company's quarterly press conference devoted to the presentation of financial results as an opportunity to meet members of the press (financial magazines, national magazines, interior-design and other trade magazines);

b) Activities in the construction market

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

Product policy

- Market launch of the formwork board;
- Continued development of new products for the construction sector, such as the formwork board;

Communications policy

- Intensive promotion of a new brand of MFP construction board in the design, contractors and end-users segments of the market;
- Participation in the BUDMA Poznań Fair; participation in regional construction fairs in Kielce, Rzeszów, Szczecin, Toruń etc;
- The summer promotional campaign ("Akcja promocyjna Lato") targeted at distribution companies; volume discounts for large purchases in the dealership network;
- Implementation of the MODEL HOUSE project in partnership with the ATRIUM design office; Warsaw;
- Continued promotion of the brand in the catalogues of the following design offices: Archeton, Archon, Archon+, Atrium, Lipińscy etc;
- Active advertising and PR activities in trade magazines and websites;
- Website: reconstruction of the CONSTRUCTION (BUDOWNICTWO) section of the website: expanding functionality and enhancing usability;
- Product launching;
- Organisation of a meeting with the Company's key customers;
- Organisation of regional training courses for designers and contractors;
- Continuation of activities designed to enhance brand's visual presence at retail outlets;
- Cooperation with the SDD, PSD and SARP associations;
- Initiation of partnership with higher education institutions;
- Participation in press events for the construction sector, attended by a large number of media representatives;

The overall cost of these activities in the furnishings, interior design and construction market was approximately PLN 6.85m.

15. Material related-party transactions in 2012

Information on material transactions executed with related parties is presented in Note 30 to the Group's annual consolidated financial statement

In 2012, the Group did not execute any related-party transactions other than on an arms' length basis.

16. Management of Pfeiderer Grajewo Group's financial resources in 2012

a) Notes

In 2012, the Parent financed its operations chiefly with bank borrowings and, to a certain extent, issues of notes acquired by Pfeiderer Prospan S.A.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

As at December 31st 2012, the par value of the Parent's debt under notes in issue totalled PLN 292m. The notes are used to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

b) Bank borrowings

Under the agreement of March 16th 2010, Pfeiderer Grajewo S.A.'s liabilities under bank borrowings were split into two tranches:

- PLN 530,000,000 Tranche A, in the form of a non-revolving loan to be used to repay the outstanding debt owed by the Parent and its subsidiaries to the Banks; As at December 31st 2012, the Parent's debt outstanding under Tranche A was PLN 455m.
- PLN 170,000,000 Tranche B, in the form of a working capital revolving facility to be used to repay the outstanding debt owed by the Parent and its subsidiaries to the Banks and to finance the Parent's day-to-day operations. As at December 31st 2012, the Parent's debt outstanding under Tranche B was PLN 2.1m. On March 15th 2012, an annex to the Credit Facility Agreement was executed, under which the repayment date for Tranche B was extended. Consequently, the full amount of Tranche B (PLN 170m) falls due on March 16th 2013. Furthermore, under Tranche B bank guarantees and letters of credit may be issued.

On January 29th 2013, the Parent made an early repayment of part of the syndicated credit facility. A substantial part of the facility was repaid using proceeds from the sale of shares in Pfeiderer OOO. The Parent repaid the full amount of Tranche A (PLN 460,000 thousand) and part of Tranche B (PLN 88,375 thousand).

Following the repayments, the total credit limit available under the facility (under Tranche B) is PLN 81,625 thousand. On March 18th 2013, the syndicated credit facility incurred by Pfeiderer Grajewo S.A. and its subsidiaries Pfeiderer Prospan S.A. and Silekol Sp. z o.o. with the bank syndicate was finally repaid.

As at December 31st 2012, Pfeiderer MDF Sp. z o.o.'s debt outstanding under bank borrowings was PLN 220.5m. Pfeiderer MDF Sp. z o.o., a subsidiary, uses an investment credit facility from PKO BP S.A., to be repaid in instalments by July 15th 2016. As at December 31st 2012, debt outstanding under the facility was PLN 188.1m. Additionally, Pfeiderer MDF Sp. z o.o. uses a PLN 57m multi-purpose credit facility from PKO BP S.A., repayable by June 30th 2013. As at December 31st 2012, debt outstanding under the facility was PLN 32.4m.

As at December 31st 2012, Pfeiderer Prospan S.A. and Silekol Sp. z o.o. used no bank borrowings.

In addition, Pfeiderer OOO had outstanding liabilities under the investment credit facility contracted with the European Bank for Reconstruction and Development (EBRD), with repayment schedule until October 11th 2013. As at December 31st 2012, the Group's debt under the facility was PLN 15.8m. In connection with execution of the conditional agreement for sale of shares in subsidiary Pfeiderer OOO of Russia, the Group classified its liability under the facility as a liability associated with assets held for sale (for details, see Note 19 to the consolidated financial statements of the Pfeiderer Grajewo Group).

As at December 31st 2012, debt outstanding under the bank borrowings taken out by the Group totalled PLN 678m.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

c) Borrowings from related entities

As at December 31st 2012, liabilities under loans provided by related entities were PLN 33.3m (December 31st 2011: PLN 188m). The liabilities include in particular:

- loan advanced by Pfleiderer Service GmbH. The loan was disbursed on April 24th 2009 to finance business operations. As at December 31st 2012, the outstanding balance of the loan was PLN 8.8m. The agreement provides for repayment of the whole debt on July 16th 2016.
- EUR-denominated loan advanced to the Parent by Pfleiderer Service GmbH to finance day-to-day operations. Debt outstanding under the loan as at December 31st 2012 was PLN 24.5m, that is EUR 5.9m. The agreement provides for the repayment of the whole debt on June 30th 2014.
- loan advanced to Pfleiderer MDF OOO by Pfleiderer AG to finance the construction of the MDF production plant in Russia. This loan is subordinated relative to bank borrowings (it must not be repaid before repayment of the bank borrowings). The loan bears interest at EURIBOR + margin. As at December 31st 2012, debt outstanding under the loan was PLN 150.9m. Following execution of a preliminary agreement for sale of a subsidiary's assets and the Group's loss of control over the subsidiary, as at December 31st 2012 the Group classified the loan as a liability associated with assets held for sale (for details, see Note 19 to the consolidated financial statements of the Pfleiderer Grajewo Group).

As at December 31st 2012, the Group's net debt under bank borrowings and other debt instruments was PLN 711m.

For detailed information on all liabilities under bank borrowings and other debt instruments as well as contingent liabilities and security instruments as at December 31st 2012, see Note 22 and Note 29, respectively, of the consolidated financial statements of the Pfleiderer Grajewo Group.

17. Financial instruments

Overview of the financial instruments

a) Swap transactions

Swap transactions included purchase of foreign currency at a predetermined rate. In 2012, the Silekol Sp. z.o.o. executed 4 swap transactions to hedge its currency risk related to reduced losses due to adverse changes in the exchange rates, totalling 17,4 m. In the same period, the losses on settled swap contracts was PLN 84 thousand.

The Group had no open swap contracts as at December 31st 2012.

b) Forward transactions

Forward transactions included purchase of foreign currency at a predetermined rate. In 2012, the Parent executed 22 forward transactions to hedge its currency risk related to business transactions

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

(product exports), totalling 12.2m. In the same period, the result on settled forward contracts was PLN 767 thousand.

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

According to IAS 39, if a cash flow hedge is effective, the effective portion of the gain or loss on the hedging instruments should be recognised in equity under other comprehensive income, whereas the ineffective portion of the gain or loss on the hedging instruments should be recognised as current period's profit or loss.

The other Group companies did not enter into any transactions on derivative instruments.

b) Guarantees, sureties and security provided by the Group

As at December 31st 2012, the Group had the following contingent liabilities and security:

1. Mortgage over properties and registered pledge over plant and equipment

A mortgage on properties and a registered pledge over plant and equipment serve as security for an investment loan granted to Pfeiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose facility obtained to finance the construction of the new MDF board production plant in Grajewo. The mortgage secures a liability of up to PLN 356,860 thousand. The registered pledge over plant and equipment secures liabilities of up to PLN 450,000 thousand and has been created over a fluctuating group of assets owned by Pfeiderer MDF Sp. z o.o.. The pledge is reviewed on a quarterly basis to take account of changes in the antyție's movable assets (plant and equipment, vehicles). As at December 31st 2012, the Group's debt under the facility totalled PLN 188.1m.

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

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

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

As at December 31st 2012, the Group's debt under the facility totalled PLN 32.5m.

3. Security for claims under the credit facility agreement concluded on March 16th 2010 with Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A.

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

On March 25th 2010, Pfleiderer Grajewo S.A. ("the Company") and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. ("the Subsidiaries") executed security agreements and documents granting security with respect to the debt arising under the credit facility agreement concluded on March 16th 2010 with Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A. ("the Banks"). The security agreements and documents provide in particular for:

- establishment of contractual joint bailmortgages over the Parent Company's and the Subsidiaries' property, on which production facilities are located, up to the amount of PLN 1,400m;
- establishment of registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of PLN 1,050m;
- establishing registered and financial pledges over amounts credited to bank accounts;
- assignment of rights under insurance agreements by way of security;
- assignment by way of security of the Company's interest in co-ownership of plant and equipment intended to be used for the purposes of the MDF project in Russia;
- establishing financial and registered pledges over the Parent Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.

On the same date, i.e. March 25th 2010, the Company, the Subsidiaries and the Banks also executed an agreement with the European Bank for Reconstruction and Development ("the EBRD"), which provides financing to Pfleiderer OOO of Russia under the credit facility agreement of December 27th 2005. Under the agreement, the parties agreed upon the scope of the security to be created over the Parent's and the Subsidiaries' assets. Pfleiderer Prospan S.A. and Silekol Sp. z o.o. joined the following agreements executed between Pfleiderer Grajewo S.A. and the EBRD:

- guarantee agreement securing the EBRD's claims under the credit facility extended to Pfleiderer OOO; and
- put/call option agreement concerning Pfleiderer OOO shares.

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

- contractual joint bailmortgages were established over the Parent Company's and the Subsidiaries' properties, on which production facilities are located, up to the amount of EUR 70.5m;
- registered pledges were created over assets owned by the Parent Company and the Subsidiaries (pledge over a company), up to the amount of EUR 79.5m

In addition in 2010 the following agreements were also concluded to secure the repayment of liabilities to the EBRD by Pfleiderer OOO under the credit agreement of December 27th 2005:

- agreement creating a pledge over movable property of Pfleiderer OOO;
- mortgage over real estate owned by Pfleiderer OOO, on which the production plant is situated;
- agreement creating a pledge over the shares held by the Parent in Pfleiderer OOO. The pledge was established over one share in Pfleiderer OOO's share capital, representing 84.1913% of the company's share capital and conferring the right to 84.1913% of the total vote at Pfleiderer OOO's General Meeting.

As at December 31st 2012, the commitment towards the EBRD under the put/call option agreement expired as a result of Pfleiderer Grajewo S.A.'s acquisition from the European Bank for Reconstruction and Development ("EBRD") of an equity interest in Pfleiderer OOO of Russia, representing 15.81% of the company's share capital. Following the acquisition, Pfleiderer Grajewo S.A. holds 100% of shares in Pfleiderer OOO.

As at December 31st 2012, Pfleiderer OOO's debt outstanding under the EBRD facility was EUR 3,846 thousand. Following the full repayment of the facility in January 2013, all Pfleiderer Grajewo Group's liabilities towards the EBRD expired.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

On January 29th 2013, Pfleiderer Grajewo S.A. made 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. As a result of the full and unconditional repayment of the debt, the bank syndicate irrevocably and unconditionally released all the security which had been created for its benefit with respect to the liabilities under the credit facility agreement.

As at December 31st 2012, the Group had no sureties outstanding.

c) Shareholdings

For details concerning holdings of shares see Note 12 – “Investments in related entities” to the annual consolidated financial statements.

On December 13th 2012, the Parent acquired from the European Bank for Reconstruction and Development (“EBRD”) an equity interest in Pfleiderer OOO of Russia, a subsidiary of Pfleiderer Grajewo S.A., representing 15.81% of the company's share capital. The price paid by the Parent for the equity interest was EUR 9,553,187.18 (PLN 39,098,329.17).

On October 19th 2012, 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 conditional agreement for sale of a 100% interest in Pfleiderer OOO of Russia.

Also on October 19th 2012, Pfleiderer MDF OOO of Russia, a subsidiary of the Parent, and Blitz 11-446 GmbH of Germany, an associate of the Parent, as the sellers, and Ingka Pro Subholding I B.V., as the buyer, entered into a conditional agreement on sale of assets (“Assets”). The Assets comprise the components of a complete production line designed for the MDF production plant project in Russia.

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 an agreement for sale of a 100% interest in Pfleiderer OOO of Russia, and into an agreement whereby the seller made a commitment to sell, and the buyer - a commitment to buy, the assets owned by Pfleiderer MDF OOO. The ownership of the assets will be transferred by July 23rd 2013, subject to payment of the selling price and handover of the assets.

On the basis of this agreement the Group will lose the right to appoint and remove members of the Management Board of MDF OOO, and thus will lose control over its subsidiary. As at December 31st 2012 r., the Group classified the assets and equity and liabilities of both subsidiaries as discontinued operations.

The Parent holds a 50% interest in Pfleiderer MDF OOO and a 50% interest in Blitz 11-446 GmbH.

The agreement to sell the 100% interest in Pfleiderer OOO of Russia and the agreement to sell the Assets will come into effect at the same time.

18. Financial risks related to the Group's operations

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

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

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

- credit risk,
- currency risk,
- liquidity risk,
- interest rate risk.

The objective behind credit risk management is to reduce 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 from the point of view of cash flows. To manage its currency risk, it first relies on natural hedging and where necessary uses forward contracts. The time horizon adopted for position monitoring and hedging transactions is up to 12 months.

The objective of financial liquidity management is to protect the Group 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.

b) Credit risk

Transactions which expose the Pfleiderer Grajewo Group companies to credit risk concern trade receivables. The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and recourse factoring. In 2012, over 90% of the Group's trade receivables were secured in this way. In the event of insolvency of customers who have insurance coverage, the compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

c) Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings. The interest rate risk is related to interest payments under borrowings with floating interest rates. The Group does not hedge the interest rate risk.

d) Currency risk

As at the date of the financial statements, exposure to currency risk under foreign-currency borrowings existed only at Pfleiderer OOO of Russia in connection with a euro-denominated bank borrowing, and at Pfleiderer MDF OOO and the Parent in connection with euro-denominated loans advanced by

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

related entities. The other Group companies are not exposed to currency risk under foreign-currency loans.

Foreign currency transactions relate both to purchases of raw materials and sale of goods. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses are offset to some extent. Furthermore, the Group makes investment expenditure in foreign currencies, and therefore it monitors its foreign currency positions on an ongoing basis and hedges open positions – first, through natural hedging (that is through carefully selecting currencies for contracts), and second, through forward transactions. The Group monitors its currency risk exposure in terms of cash flows rather than profit or loss.

In 2012, the Pfeiderer Grajewo Group entered into a number of EUR/PLN forward contracts to hedge against currency risk related to planned trade transactions. The Group had no open forward contracts as at December 31st 2012.

Furthermore, Pfeiderer Grajewo S.A. is exposed to currency risk resulting from RUB-denominated loans extended to Pfeiderer OOO and Pfeiderer MDF OOO.

e) Price risk associated with financial instruments

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

f) Risk of material cash-flow disruptions

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

g) Liquidity risk

The Group monitors its financial liquidity on an ongoing basis, both with respect to short-term liquidity (a few days forward) and long-term liquidity (a few years forward).

Structure of assets, equity and liabilities disclosed in the consolidated balance sheet:

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$	$\frac{\text{Average trade and other receivables}}{\text{Net revenue: 360}}$	$\frac{\text{Average trade and other liabilities}}{\text{Net revenue: 360}}$	$\frac{\text{Average inventory}}{\text{Net revenue: 360}}$
Dec 31 2012	1.08	0.91	23 days	47 days	42 days
Dec 31 2011	0.98	0.41	33 days	53 days	44 days

As at December 31st 2012, the Pfeiderer 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.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

Pursuant to the PLN 700,000 thousand credit facility agreement executed on March 16th 2010 with a bank syndicate ("the Credit Facility Agreement"), a breach by Pfleiderer AG, Pfleiderer Grajewo S.A.'s indirect parent, of its credit facility agreements would constitute a breach under the Credit Facility Agreement.

Following a number of developments related to the legal situation and economic position of Pfleiderer AG, in 2010 the company defaulted on debt covenants its credit agreements. Pfleiderer Grajewo S.A. obtained waivers by the banks of their rights to terminate their respective credit facility agreements with Pfleiderer Grajewo S.A. as a result of the default by Pfleiderer AG.

On May 12th 2011, Pfleiderer AG reported that it had reached an agreement with its financing banks regarding key elements of the financial restructuring and debt refinancing plan. The terms of the agreements required approval by Pfleiderer AG's shareholders and bondholders. Some non-controlling shareholders and holders of hybrid bonds appealed against the resolutions granting the approvals to competent courts. Adverse court rulings of March 27th 2012 rendered the original restructuring plan impossible to implement.

Following the court rulings, Pfleiderer AG of Neumarkt filed a bankruptcy petition on March 28th 2012. According to the information released by Pfleiderer AG, the Management Board of Pfleiderer AG filed a petition to initiate bankruptcy proceedings and be allowed to operate as a debtor in possession. The Management Board of Pfleiderer AG, under the supervision of a court-appointed trustee, managed the company and carried out the restructuring process.

On September 12th 2012, the creditors and shareholders of Pfleiderer AG approved, by majority of votes, a restructuring plan proposed by the company's Management Board. On October 18th 2012, the restructuring plan was approved by the court in Düsseldorf.

On November 27th 2012, the court in Düsseldorf registered the measures aimed at raising capital, approved in the restructuring plan, with the commercial register, as a result of which Atlantik S.A. has emerged as the new and sole shareholder of Pfleiderer AG, which is no longer listed on the stock exchange. The bankruptcy court of Düsseldorf completed the bankruptcy proceedings with effect as of December 31st 2012.

On February 21st 2013, the sole shareholder decided to transform Pfleiderer AG into a limited liability company (GmbH).

The Pfleiderer Grajewo Management Board believes that the declaration of the ultimate parent Pfleiderer AG's bankruptcy will not adversely affect the Pfleiderer Grajewo Group's day-to-day operations. The Group companies are fully independent in terms of operations, and have their own procurement and sales channels. The Pfleiderer Grajewo Group has separate credit facility agreements securing funding of its day-to-day operations.

In view of the above, Pfleiderer Grajewo S.A. obtained waivers by the financing banks of their rights to terminate the credit facility agreement with the Company as a result of the default by Pfleiderer AG.

Group repay debt under credit facility on March 18, 2013. More information at point of 28 the consolidation statement of operation management.

The Group monitors its financial ratios on an ongoing basis and, based on its short-term financial plans, analyses the risk of failure to maintain the ratios at the required levels.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

19. Court proceedings

On April 2nd 2012, Pfeiderer Grajewo S.A. (the parent) and Pfeiderer 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., Pfeiderer Grajewo S.A. and Pfeiderer Prospan S.A. acted in collusion to frustrate competition on the domestic chipboard and fibreboard markets.

During the proceedings, Pfeiderer Grajewo S.A. and Pfeiderer Prospan S.A., its subsidiary, provided additional information required by the Office. At present, the Parent's 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.

Other than the proceedings referred to above, there are no court, arbitration or administrative proceedings pending with respect to any liabilities or claims of the Group companies, whose value would represent 10% or more of the Parent's equity.

20. Material settlements under court proceedings

As at December 31st 2012, the Group did not carry any material settlements under court proceedings. In 2012, there were no circumstances which would substantiate the recognition of any provisions for costs of court proceedings.

21. Corrections of errors of past periods

By the end of 2012, the Group had not corrected any errors of past periods

22. Corporate governance

Appointment and removal of the management staff

Pursuant to the Parent's Articles of Association, the Management Board members are appointed by the Parent's Supervisory Board. The Articles of Association and resolutions of the Parent's General Meeting do not provide for any special powers for the Management Board members with respect to making decisions on the issue or repurchase of shares.

Parent's management bodies

The Parent's Management Board must consist of at least two members. Members of the Management Board are appointed for a joint five-year term of office. The Supervisory Board appoints the President of the Management Board and, upon his/her request, the other members of the Management Board. The Management Board exercises all powers in the scope of managing the Parent's operations with the exception of powers reserved for the Parent's other governing bodies under law or the Parent's Articles of Association. The proceedings of the Management Board and the matters assigned to individual members of the Management Board are defined in detail in the Rules of Procedure of the Management Board, adopted by the Parent's Management Board and approved by the Supervisory Board.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

The General Meeting appoints the members of the Supervisory Board. The Supervisory Board must consist of five, seven or nine members. Members of the Supervisory Board are appointed for a joint five-year term of office. The Supervisory Board supervises the Parent's activities and operations. The powers of the Supervisory Board are defined in the Articles of Associations and in law, including the Commercial Companies Code. The Supervisory Board adopts its rules of procedure, which define operations of the Supervisory Board in detail.

Amendments to the Parent's Articles of Association

The Articles of Association of the Parent are amended in line with the procedure specified in the Commercial Companies Code. No special provisions with respect to this practice are set forth in the Parent's Articles of Association.

Proceedings of the Parent's General Meeting

The General Meeting of the Parent has the powers specified in the Commercial Companies Code and the Articles of Association. The proceedings of the General Meeting are governed by the Articles of Association and the Rules of Procedure of the General Meeting, available on the Parent's web site.

Shares in the Parent

The Parent has not issued any shares granting special control powers. In addition, there are no limitations on the exercise of voting rights attached to the shares issued by the Parent. Also, there exist no rights related to the securities issued by the Parent which would be separate from the ownership of the securities.

Neither the Articles of Association of the Parent, nor the Parent's other internal regulations provide for any restrictions on the transferability of the Parent shares. Therefore, transfer of ownership of the Parent shares is subject only to the limitations imposed by the applicable laws and the stock-exchange regulations.

Financial statements of the Parent and the Group

The Parent's financial statements are prepared by a separate organisational unit. All financial statements are reviewed, verified and approved at several levels at the Company, which eliminates risks related to financial reporting.

The Pfleiderer Grajewo Management Board declares that the Parent complies with the corporate governance rules contained in "Best Practices of WSE-Listed Companies" as appended to the WSE Supervisory Board resolution No. 20/1287/2011, dated October 19th 2011, save for the following rule:

Rule III.6

At least two members of the Supervisory Board should meet the criteria of being independent from the Parent company and entities with significant connections with the Parent. The independence criteria should be applied under Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the Annex, a person who is an employee of the company, its subsidiary or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

The Parent does not comply with the rule. Instead, it ensures that an independent member serves on the Supervisory Board as specified below:

In accordance with the Parent's Articles of Association, at least one member of the Supervisory Board consisting of five members, two members of the Supervisory Board consisting of seven members, and three members of the Supervisory Board consisting of nine members must be independent and satisfy the following criteria:

- they are not members of the governing bodies of Pfeiderer Grajewo S.A.'s Parent or of such Parent's subsidiaries,
- they are not employed by Pfeiderer Grajewo S.A.'s Parent or by such Parent's subsidiaries,
- they are not relatives (a spouse, direct descendant or direct ascendant) of a member of the governing bodies of Pfeiderer Grajewo S.A. or Pfeiderer Grajewo S.A.'s Parent.

In line with the Parent's Articles of Association, as at the date of the corporate governance statement, the Parent's Supervisory Board consists of five persons, including one member satisfying the independence criteria specified above.

23. Auditor

The separate and consolidated financial statements are audited and reviewed on the basis of the decision made by the General Meeting on June 23rd 2010 on appointment of the auditor. Pursuant to the resolution, the following entity was appointed the auditor:

KPMG Audyt Spółka z o.o. spółka komandytowa
ul. Chłodna 51
00-867 Warszawa, Poland

The financial statements were audited pursuant to the agreement executed between KPMG and the Company. The agreement, dated June 7th 2012, provided for the review of the interim separate financial statements and interim consolidated financial statements of the Parent, that is Pfeiderer Grajewo S.A., and the Pfeiderer Grajewo Group. The fee due to KPMG under the Agreement was PLN 93,200. The most recent agreement with KPMG for the review of accounting books, dated October 3rd 2012, provided for an audit of the annual separate financial statements of Pfeiderer Grajewo S.A. and the annual consolidated financial statements of the Pfeiderer Grajewo Group for the financial year ended December 31st 2012, prepared in accordance with the IFRS, as well as an audit of the Group's annual report. The fee due to KPMG under the agreement is PLN 236,000. The agreement also covered an audit of relevant procedures.

The total fee for the audits specified above amounted to PLN 329,200 (PLN 443,200 for the previous financial year).

24. Audit Committee

All duties of an audit committee were assigned to the Pfeiderer Grajewo Supervisory Board.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period January 1st – December 31st 2012

25. Non-recurring events affecting the Pfeiderer Grajewo Group's financial performance

No non-recurring events which might affect the Pfeiderer Grajewo Group's financial performance occurred in 2012.

26. Changes in the composition of the Parent's Management Board

No changes the composition of the Parent's Management Board occurred in 2012.

27. Changes in the composition of the Parent's Supervisory Board

On March 7th 2012, Mr Hans-Joachim Ziems 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 Parent's Supervisory Board 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.

28. Other activities of the Group

Events subsequent to the end of the reporting period

On January 23rd 2013, Pfeiderer Grajewo S.A., as the seller, and Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., as the buyers, entered into an agreement for sale of a 100% interest in Pfeiderer OOO of Russia as well as the assets belonging to Pfeiderer 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, Pfeiderer MDF OOO will sell construction assets to Pfeiderer OOO, comprising in particular land owned by Pfeiderer 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 Pfeiderer 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

PFLEIDERER GRAJEWÓ GROUP

Annual Directors' Report on the operations of the Pfeiderer Grajewo Group in the period

January 1st – December 31st 2012

transaction is closed, based on audited financial statements of Pfeiderer OOO prepared as at the sale transaction closing date.

The selling price of Pfeiderer 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, Pfeiderer MDF assets and construction assets amounts to EUR 44,394 thousand (PLN 185,124 thousand).

The Blitz assets and Pfeiderer 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 Pfeiderer Grajewo Group will lose control over its subsidiary Pfeiderer 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, Pfeiderer Grajewo S.A. held a 50% interest in Pfeiderer MDF OOO and a 50% interest in Blitz 11-446 GmbH.

On January 29th 2013, Pfeiderer 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, Pfeiderer 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 Pfeiderer OOO. From January 24-29 2013, Tranche A of PLN 460 mio 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, Pfeiderer AG, the indirect 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.

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

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 March 18th 2013, the syndicated credit facility (tranche B) incurred by Pfeiderer Grajewo S.A. and its subsidiaries Pfeiderer Prospan S.A. and Silekol Sp. z o.o. with a bank syndicate comprising

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period

January 1st – December 31st 2012

Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska SA (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A. was repaid in full. All securities related to the facility have been or – in the case of registered pledges and mortgages – will be released.

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.

PFLEIDERER GRAJEWO GROUP

Annual Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – December 31st 2012

Economic forecast for the foreseeable future

Given the current economic climate, the Group will refrain from publishing its forecast for 2013 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

**Pfleiderer Grajewo Management Board
and Pfleiderer Prospan S.A.**

Grajewo, April 30th 2013

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