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DIRECTORS' REPORT

on the operations of Pfleiderer Grajewo S.A. in the period January 1st – December 31st 2012

FINANCIAL HIGHLIGHTS

	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
	PLN '000		EUR '000	
Revenue from sales of products, merchandise and materials	725,259	730,081	173,773	176,344
Operating profit	41,418	40,004	9,924	9,663
Profit before tax	10,831	49,503	2,595	11,957
Net profit	12,003	40,801	2,876	9,855
Net cash from operating activities	37,219	51,741	8,918	12,498
Net cash from investing activities	112,904	58,754	27,052	14,191
Net cash from financing activities	(149,784)	(109,954)	(35,888)	(26,558)
Total net cash flow	339	541	81	131
Basic earnings per share (PLN/EUR)	0.24	0.82	0.06	0.2
Diluted earnings per share (PLN/EUR)	0.24	0.82	0.06	0.2
PLN/EUR average exchange rate			4.1736	4.1401

	Dec 31 2012	Dec 31 2011	Dec 31 2012	Dec 31 2011
	PLN '000		EUR '000	
Total assets	1,427,663	1,507,764	349,216	341,370
Liabilities	890,637	982,741	217,855	222,501
Non-current liabilities	30,863	488,421	7,549	110,583
Current liabilities	859,774	494,320	210,306	111,918
Equity	537,026	525,023	131,360	118,870
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)	10.82	10.58	2.65	2.40
PLN/EUR exchange rate as at the reporting date			4.0882	4.4168

GENERAL INFORMATION

Pfleiderer Grajewo S.A.'s principal place of business is Grajewo, a town in north-eastern Poland.

Initially, the Company operated under the name of Zakłady Płyt Wiórowych S.A. of Grajewo and was originally registered on July 1st 1994 by the District Court, Commercial Court of Łomża, in Section B of the Commercial Register 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 Company'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 Company name was changed to Pfleiderer Grajewo S.A. The registered office of Pfleiderer Grajewo S.A. is situated at ul. Wiórowa 1, Grajewo, Poland. The Company shares are publicly traded. In accordance with the Polish Classification of Business Activities, the Company's business is registered under No. 1621 Z.

The business of Pfleiderer Grajewo S.A. 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.

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

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

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

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 Company's Supervisory Board.

On September 28th, Mr Hans H. Overdiek resigned from the position of Member of the 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 Company's Supervisory Board.

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

Pfleiderer Grajewo S.A.'s shareholder structure:

Shareholder structure as at April 30th 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%

The information on the number of Company shares held by Aviva OFE (former Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK) is sourced from the most recent notification of shareholding change, received by the Company on July 10th 2007.

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

The number of the Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

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

- Dependence on key customers – relationships with customers are based on long-term framework agreements providing the parties with assurance of stable cooperation and lasting development.
- Customer insolvency risk – the Company monitors the financial liquidity of its customers on an ongoing basis, mitigating the customer insolvency risk by using trade credit insurance.
- Dependence on suppliers – key raw materials purchased by the Company include wood and wood waste, decorative paper, chemical substances, and machine parts. The Company mitigates the related risk by using diversified sources of supplies. Increases in prices of the raw materials affect the Company as well as its competitors and for this reason do not have an adverse impact on the Company's competitive position.
- Currency risk – the Company 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 the sales peak is observed in the second half of the financial year. Seasonal changes do not give rise to a significant risk for the Company as lower sales in the period are accompanied by lower purchases of raw materials. The Company's liquidity remains relatively stable over the period.

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

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

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.
- Geographical expansion and development of the product mix.

- Implementation of new technical systems and restructuring of the Company through further optimisation of the production processes and cost savings programme.
- Modernisation of the production plant and equipment in order to ensure the highest quality of products and enhancement of production efficiency.
- Promotion of the Pfleiderer brand as a modern and continuously developing organisation, which implements state-of-the-art technologies and respects the natural environment.
- Development of the Premium brands and product lines;
- Balancing of the financing structure, improvement of liquidity and reduction of borrowing costs.

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

- Optimisation of production and costs.
- Analysis of production and sales volumes and adjusting them to current market demand.
- Enhancing security of trade.
- Optimisation efforts designed to improve the Company's operating efficiency.
- Securing of wood supplies.
- Improving the quality of products and services.
- Enhancing efficiency and production processes through tight cost control.
- Securing stable sources of external financing for the Company in the long-term perspective.
- Promoting the Company's image as a financially stable and reliable business partner.
- Strengthening of Pfleiderer's market position by promoting the Company's brand and vision.
- Monitoring 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.
- Monitoring the Group's external environment with a view to developing a new model of cooperation with customers.
- Entering into negotiations and defining the terms of the sale of shares in Pfleiderer OOO and the assets designated for Pfleiderer MDF's project in Russia.

2. Financial standing of Pfleiderer Grajewo S.A.

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

	Dec 31 2012 PLN '000	Dec 31 2011 PLN '000
Equity	537,026	525,023
Non-current liabilities	30,863	488,421
Long-term capital (equity + non-current liabilities)	567,889	1,013,444
Current liabilities	859,774	494,320

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

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

- PLN 530,000 thousand Tranche A, in the form of a non-revolving loan to be used to repay the outstanding debt owed by the Company and its subsidiaries to the Banks;

- 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 Company and its subsidiaries to the Banks and to finance the Company's day-to-day operations.

The funds were disbursed on March 31st 2010, following execution of the relevant security documents and security agreements, as well as an agreement between the lenders, executed by the Banks and the European Bank for Reconstruction and Development.

The credit facility bears interest at WIBOR plus bank margin, whose level is variable and depends on the ratio of net financial debt to EBITDA.

On January 29th 2013, the Company 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 Company repaid the full amount of Tranche A (PLN 460,000 thousand) and part of Tranche B (PLN 88,375 thousand).

On March 18th 2012, the syndicated credit facility contracted by the Company pursuant to the credit facility agreement of March 16th 2010 was finally repaid. All security interests related to the facility have been or – in the case of registered pledges and mortgages – will be released.

Following the transaction, the Company and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. had no debt outstanding under bank borrowings.

3. Workforce and remuneration at Pfleiderer Grajewo S.A.

As at December 31st 2012, the Company employed 567 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board. The Company's workforce structure as at the last day of the reporting period and the corresponding period of the previous year was as follows:

	Dec 31 2012	**Dec 31 2011**
Employees		
- direct production employees	276	282
- indirect production employees	131	121
- administration, office and other employees	157	177
- management staff	3	3
Total	**567**	**583**

The headcount at Pfleiderer Grajewo S.A. has remained relatively stable for a long time.

Remuneration of the members of the Company 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 522 thousand

In addition, the Management Board members listed above received remuneration from other subordinated entities. See Note 30 to the 2012 consolidated financial statements.

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 Company Supervisory Board in the reporting and comparative periods was as follows:

Name	**Jan 1–Dec 31 2012**	**Jan 1–Dec 31 2011**
Michael Wolff	157	0
Jan Woźniak	91	48
Jochen Shapka	78	0
Hans-Kurt von Werder	71	0
Gerd Hammerschmidt	15	0
Hans H. Overdiek	61	0
Total	**473**	**48**

As at December 31st 2012, the members of the Management and Supervisory Boards of Pfleiderer Grajewo S.A. had no outstanding loan-related debt from the Company.

Under the stock option scheme of Pfleiderer AG, the parent of the Pfleiderer Group, the members of the Pfleiderer Grajewo Management Board were entitled to acquire options for the parent's shares directly from Pfleiderer AG.

In connection with the restructuring and the decision made on February 21st 2013 to transform the legal form of parent entity Pfleiderer AG into a limited liability company, the sale of shares in Pfleiderer AG was suspended.

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

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

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

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

5. Production volume and structure

In 2012 and 2011, the production volumes at Pfleiderer Grajewo S.A. by key product groups were as follows:

		2012	2011
Production of raw chipboards	m^3	584,448	575,906
Melamine-faced chipboards	thousand square metres	18,740	17,733

In 2012, there was a slight change in the structure of the output as compared with 2011. Production of raw chipboard increased by 1% in 2012, while production of melamine-faced board increased by 6%.

6. Sales volume and structure

Revenue reported by the Company in 2012 was PLN 725,259 thousand, down 1% year on year.

The table below presents revenue by geographical region:

	Jan 1– Dec 31 2012	Jan 1– Dec 31 2011
Domestic sales	**474,663**	**508,727**
- revenue from sales of products	345,547	359,652
- revenue from sales of merchandise and materials	91,921	117,998
- revenue from rendering of services	37,195	31,077
Foreign sales	**250,596**	**221,354**
- revenue from sales of products	216,421	193,935
- revenue from sales of merchandise and materials	30,935	25,175
- revenue from rendering of services	3,240	2,244
Total:	**725,259**	**730,081**

The table below presents revenue by product group:

	01.01.2012 - 31.12.2012		01.01.2011 - 31.12.2011	
	value	% share	value	% share
Revenue from sales of products	**561,968**	77.48%	**553,587**	75.83%
Chipboard	408,588	56.34%	425,134	58.23%
Finish foil (foil, edge banding, edge foil)	116,235	16.02%	110,954	15.20%
Other	37,145	5.12%	17,499	2.40%
Revenue from sales of merchandise and materials	**122,856**	16.94%	**143,173**	19.61%
Revenue from sales of materials	92,514	12.76%	116,598	15.97%
Revenue from sales of merchandise	30,342	4.18%	26,575	3.64%
Revenue from rendering of services	**40,435**	5.58%	**33,321**	4.56%
Total:	**725,259**	100%	**730,081**	100%

Sales volumes of Pfleiderer Grajewo S.A.'s key products:

By product group (thousand cubic meters)	Jan 1 2012 - 31.12.2012	Jan 1– - 31.12.2011
Chipboard	549.8	549.5
MDF boards	0.4	0.5
Total product sales volume	**550.2**	**550.0**

The furniture industry continues to be the most important sector for Pfleiderer Grajewo S.A. as it accounts for 95% of total sales. The Company 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 Company's long-term sales strategy for the furniture market is based on three key distribution channels:

- Sales to industrial customers
- Sales to the Pfleiderer Partner dealership network (PP network)
- Export sales

Company’s sales by distribution channels in 2011-2012:

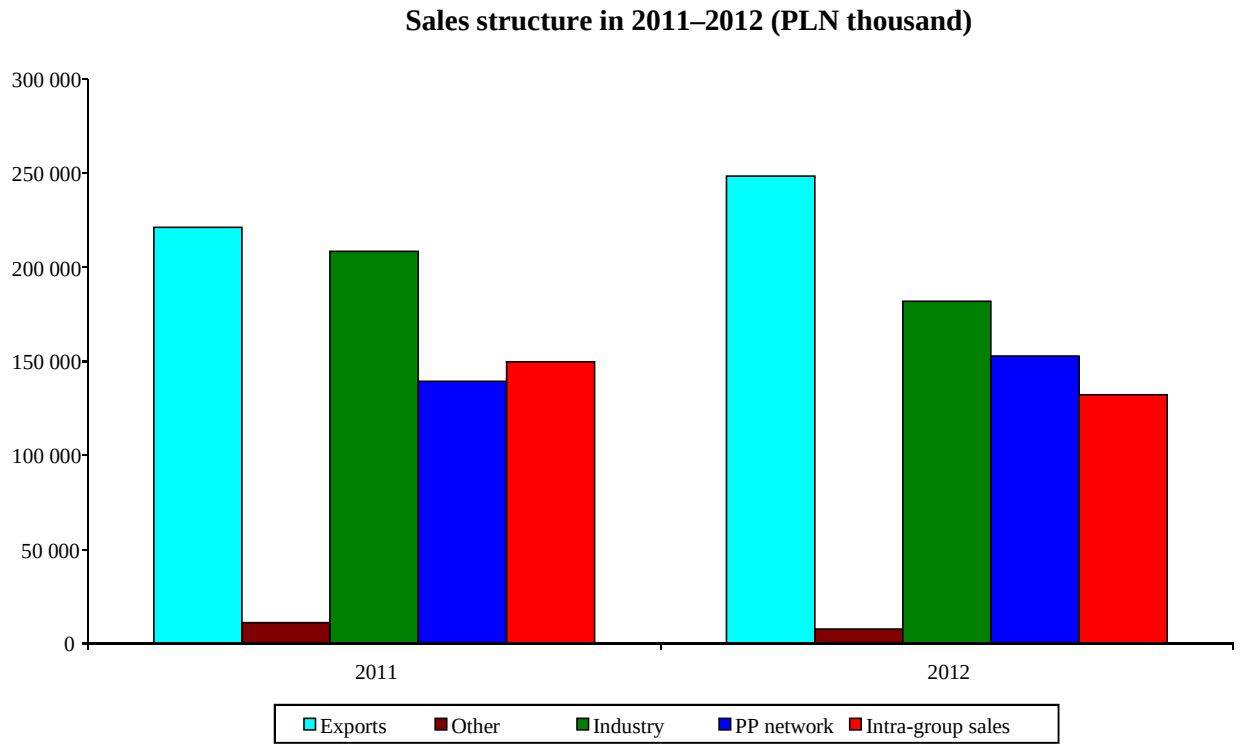

Figure: Sales structure in 2011–2012 (PLN thousand)

Export, direct sales to large and medium-sized furniture producers and sales to the Pfleiderer Partner network remained the Company's key distribution channels. In 2012, export sales increased by 12% year on year. However, a 12% year-on-year decline was reported for sales to large and medium-sized furniture producers. Sales to the Pfleiderer Partner network saw a 10% year-on-year increase. Intra-group sales to other subsidiaries of Pfleiderer Grajewo S.A. Group in Poland fell by 12%

Shares of individual distribution channels in Pfleiderer Grajewo S.A.'s total sales in 2011-2012:

Shares of distribution channels in 2012 sales:

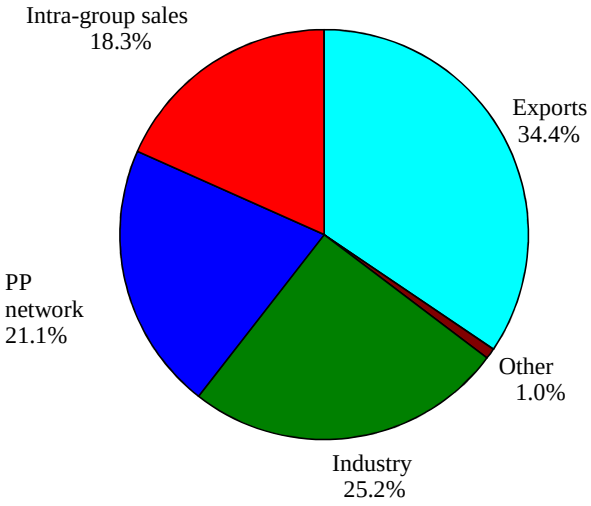

Figure: Sales structure in 2011–2012 (PLN thousand)

Relative to the previous year, the share of exports improved from 30.3% to 34.4%, while direct sales to large and medium-sized furniture producers fell from 28.3% to 25.2%, sales to the Pfleiderer Partner network increased from 19.1% to 21.1%, and intra-group sales decreased from 20.6% to 18.3%.

7. Procurement

In 2012, the Company purchased raw wood from traditional sources, located in close proximity to the plants

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 35% of all supplies, while by-products of the wood processing industry accounted for 65% of the total. In 2012, the share of recycled raw materials fell to 1%. Supplies of wood from Poland prevailed, and represented 88% of total purchases.

8. Economic and financial data

The cost of raw materials and consumables used continues to be the most significant component in the Company's cost structure, accounting for (63%) of the technical production cost. Other significant cost components include depreciation/amortisation (2%), salaries and overheads (7%) and services (9%). The high share of services in the overall cost structure 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 important component of the Company's profit and loss.

In 2012, there was a year-on-year decline in margins:

	Jan 1– Dec 31 2012	**Jan 1– Dec 31 2011**
Pre-tax profit / Revenue	1.49 %	6.78 %
	Jan 1– Dec 31 2012	**Jan 1– Dec 31 2011**
Net profit / Revenue	1.65 %	5.59 %

9. Use of bank borrowings

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 to refinance the Group’s debt. The Company 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., 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 loan to be used to repay the outstanding debt owed by the Company 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 Company and its subsidiaries to the Banks and to finance the Company’s day-to-day operations.

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

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

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

On January 29th 2013, the Company 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 Company repaid the full amount of Tranche A (PLN 460,000 thousand) and part of Tranche B (PLN 88,375 thousand).

On March 18th 2012, the Company made a final repayment of the syndicated credit facility incurred by the Company under a credit facility agreement concluded on March 16th 2010 by the Company and its subsidiaries 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. All security interests related to the facility have been or – in the case of registered pledges and mortgages – will be released.

Following the transaction, the Company and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. had no debt outstanding under bank borrowings.

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 the Pfleiderer Grajewo Group's liabilities towards the EBRD expired.

As at December 31st 2012, debt outstanding under the bank borrowings used by the Company was PLN 457,254 thousand.

For more information on interest rates applicable to the credit agreements, see Note 18 of the Company's separate financial statements.

10. Investments and overhauls

To ensure proper operation on the market and its ability to satisfy the customers' growing expectations, the Company must maintain its plant and equipment in the best technical and technological condition. In 2012, the Company spent PLN 9,857 thousand on overhauls and maintenance of the plant and equipment. The Company's efforts in this respect result in gradual improvement of the quality of products and help increase the production capacity.
To maintain the necessary production volumes and to consistently enhance the quality of products, the Company's 2012 capital expenditure was allocated chiefly to increasing the productivity. The largest investment project was a PLN 2,396 thousand upgrade of the IMALL taping machine. In 2012, the Company spent a total of PLN 7,836 thousand on investment projects.

11. Feasibility of Pfleiderer Grajewo S.A.'s investment plans for 2013

Pfleiderer Grajewo S.A.'s 2013 budget provides for capital expenditure of PLN 54,919 thousand, to be financed partially with proceeds from disposal of the Russian assets. The largest portion of the amount (PLN 30m) will be spent on the upgrade of the wood waste collection and processing line and on removal of mineral impurities (PLN 20m in 2013, PLN 10m in 2014). The rest of the amount will be spent on smaller projects related to development of the plant's infrastructure, production, and IT systems, as well as on projects focused on developing the offering for new customers, in particular for the interior design and construction markets. Completion of the plan will also improve the competitiveness of the Company and, in effect, its performance.

12. Marketing activities in 2012

12.1. Marketing objectives:

- Development of the Premium brands and product lines;
- Finding new applications for the existing product mix;
- Strengthening Pfleiderer's position in local markets;
- Strengthening Pfleiderer's position in the construction market;
- Developing new communication channels at Pfleiderer: designer/ kitchen studio/ contractor/ end user;
- Implementing trade and marketing standards for new markets and customers.

12.2. Marketing activities on the furnishings and interior design markets:

Product policy:

- 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;
- 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.

Communications policy:

- 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;
- 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;
- Product launching;
- 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). The project was well received by the media representatives and investors.

12.3. Marketing activities on the construction market

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:

- presence at the BUDMA Poznań trade 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 in Janki near Warsaw,
- Continued promotion of the brand in the catalogues of the following design offices: Archeton, Archon, Archon+, Atrium, Lipińsy 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,
- Organisation of a meeting with the Company's key customers,
- Product launching,
- 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 PLN 6.85m.

13. Material related-party transactions as at December 31st 2012

The table below presents related-party transactions executed by the Company in the reporting period.
In 2012, the Group did not execute any related-party transactions other than on an arms' length basis.

PLN '000

Entity	Sales	Finance income	Other income	Dividend income	Finance costs	Purchase of merchandise, services and materials	Receivables under loans granted	Liabilities under borrowings and bonds	Trade and other receivables	Trade payables
Pfleiderer MDF OOO	197	16,448	0	0	0	0	175,284,*)	0	2,611	0
Pfleiderer Unifloor Sp. z o.o.	0	0	0	0	0	0	0	0	0	0
Pfleiderer MDF Sp. z o.o.	107,556	40	0	0	0	47,558	430	0	25,085	1,753
Silekol Sp. z o.o.	1,468	1,115	0	0	0	73,517	6,832	0	168	15,710
OOO Pfleiderer Russia	84,358	13,932	0	0	0	770	120,587,*)	0	11,557	243
Pfleiderer Prospan S.A.	22,837	0	0	29,104	12,919	16,695	0	292,005	6,787	0
Jura Polska Sp. z o.o.	720	0	2	0	0	26,657	0	0	128	2,222
Pfleiderer Services GmbH	0	0	65	0	1,448	2,731	0	24,467	0	453
Pfleiderer Aktiengesellschaft	7	0	0	0	0	2,101	0	0	69,556,*)	515
Pfleiderer Holzwerkstoffe GmbH & Co. KG	905	0	0	0	0	0	0	0	22	0
Wodego GmbH	82	0	0	0	0	0	0	0	28	0
Thermopal GmbH	0	0	0	0	0	21	0	0	0	21
Pfleiderer Industrie GmbH	0	0	0	0	0	74	0	0	0	27
Duropal GmbH	0	0	0	0	0	320	0	0	0	8
Pergo Inc.	0	0	0	0	0	0	0	0	0	0
Pergo (Europe) AB	210	0	0	0	0	0	0	0	0	0
Pfleiderer Engineering International GmbH	0	0	0	0	0	334	0	0	0	164
Total	**218,340**	**31,535**	**67**	**29,104**	**14,367**	**170,778**	**303,133**	**316,472**	**115,942**	**21,116**

*) recognised in the statement of financial position under assets held for sale or distribution

14. Management of Pfleiderer Grajewo S.A.'s financial resources in 2012

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

As at December 31st 2012, the Company's debt under outstanding notes totalled PLN 292,005 thousand by nominal value, and debt under bank borrowings totalled PLN 457,254 thousand.

15. Financial instruments

15.1. Overview of the financial instruments

a) Derivatives

Forward transactions included purchase of foreign currency at a predetermined rate. Forward contracts are executed in order to hedge currency risk related to business transactions (sale of products, purchase of raw materials, capital expenditure in foreign currencies).

The Company applies hedge accounting, and therefore the effective portion of gains or losses on fair value measurement of forward hedging instruments is recognised under other comprehensive income and as a separate balance-sheet item in equity, under "cash flow hedges". Gains or losses previously recognised in other comprehensive income are transferred to the current period's profit or loss in the same period and 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 a derivative instrument is recognised immediately in the current period's profit or loss.

As at December 31st 2012, the Company had no open forward contracts. In the same period, the profit on settled forward contracts was PLN 851 thousand.

b) Description of notes, use of issue proceeds until the date of this report

The commercial paper programme, carried out pursuant to an agreement of July 22nd 2003 with PEKAO S.A., consists in issuance of short-term notes. The notes are issued in accordance with the Polish Bonds Act of June 29th 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form.

The notes issued by Pfleiderer Grajewo S.A. mature in up to one year, and are held by Pfleiderer Prospan S.A. and Silekol Sp. z o.o. through the agency of Bank PEKAO S.A. Thus, Pfleiderer Grajewo S.A. does not use bank loans bearing higher interest, and Pfleiderer Prospan S.A. has placements which bear higher interest than such instruments as treasury bills. The cost borne by the notes issuer is the Bank's commission fee. The notes form a discount instrument – they are issued at a discount to their nominal value and redeemed by the issuer at nominal value at maturity.
As at December 31st 2012, Pfleiderer Grajewo S.A.'s debt under notes in issue towards Pfleiderer Prospan S.A. was PLN 292,005 thousand (including interest). After December 31st 2012, Pfleiderer Grajewo S.A. carried out 7 issues of commercial paper in the form of short-term notes with a view to optimising the Group's financial liquidity management, reducing the external debt and financing day-to-day operations.

Use of proceeds
The notes are used to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

c) Loans, sureties and guarantees

Loans advanced:

Pfleiderer Grajewo S.A. executes new investment projects through its subsidiaries. These projects are partially financed with credit facilities advanced by banks directly to such subsidiaries and partially with loans advanced to those subsidiaries by Pfleiderer Grajewo S.A.

As at December 31st 2012, the Company had receivables under loans advanced to the following subsidiaries:

- Pfleiderer OOO
- Pfleiderer MDF OOO
- Pfleiderer MDF Sp. z o.o.
- Silekol Sp. z o.o.

The table below presents detailed information on loans advanced by the Company to those subsidiaries (all amounts in PLN thousand):

Subsidiary:	**Jan 1 2012**	**Interest accrued**	**Repayment of principal**	**Repayment of interest**	**Effect of currency-translation differences**	**Dec 31 2012**
Pfleiderer OOO	201,051	13,932	(41,883)	(44,365)	(8,148)	120,587
Pfleiderer MDF OOO	166,174	16,448	0	0	(7,338)	175,284
Loans advanced, sub-total *)	**367,225**	**30,380**	**(41,883)**	**(44,365)**	**(15,486)**	**295,871**
Silekol Sp. z o.o.	16,300	1,115	(9,468)	(1,115)	0	6,832
Pfleiderer MDF Sp. z o.o.	390	40	0	0	0	430
Loans advanced, sub-total	**16,690**	**1,155**	**(9,468)**	**(1,115)**	**0**	**7,262**
Total loans advanced:	**383,915**	**31,535**	**(51,351)**	**(45,480)**	**(15,486)**	**303,133**

*) recognised in the statement of financial position under assets held for sale or distribution

Interest on loans advanced accrues in monthly periods and is disclosed under finance income.

The loans advanced to Pfleiderer OOO and Pfleiderer MDF OOO are denominated in RUB and bear interest at a rate equal to 3M MOSPRIME plus margin. The loans advanced to Silekol Sp. z o.o. and Pfleiderer MDF Sp. z o.o. are denominated in PLN and bear interest at a rate equal to 1M WIBOR plus margin.

Loans received:

As at December 31st 2012, the Company had liabilities of EUR 5,985 thousand (PLN 24,467 thousand) under a loan from Pfleiderer Service GmbH, a related entity. The debt is to be repaid by June 30th 2014.

Guarantees and sureties:

As at December 31st 2012, Pfleiderer Grajewo S.A. had three outstanding sureties:

- up to the amount of EUR 35,000 thousand valid for indefinite term, for the benefit of the European Bank for Reconstruction and Development for the liabilities under the bank loan granted to its subsidiary, Pfleiderer OOO, to finance the construction of a new plant in Russia. As at December 31st 2012, debt outstanding under the credit facility was EUR 3,846 thousand (PLN 15,724 thousand). The surety expires upon Pfleiderer OOO's achieving the agreed levels of

financial ratios and establishing security on its assets for the benefit of the Bank. Following the full repayment of the facility in January 2013, all the Pfleiderer Grajewo Group's liabilities towards the EBRD expired.

- surety of up to EUR 1,115 thousand (PLN 4,558 thousand) for subsidiary Pfleiderer MDF Sp. z o.o. This surety secures the partial repayment of a credit facility advanced to Pfleiderer MDF Sp. z o.o. by PKO BP S.A., of which PLN 188,107 thousand was outstanding as at December 31st 2012.
- On December 16th 2012, Pfleiderer OOO contracted a RUB 281,217 thousand loan from Ingka Pro Holding I B.V., the repayment of which was secured with a surety issued by Pfleiderer Grajewo S.A. The loan was related to closing of the transaction under which Pfleiderer Grajewo S.A. sold its Russian assets. The surety expired on January 23rd 2013 when Pfleiderer Grajewo S.A. executed the final agreement concerning the sale of shares in Pfleiderer OOO.

In order to secure the Banks' claims under the syndicated credit facility agreement of March 16th 2010, on March 25th 2010 the Company executed documents and agreements concerning in particular:

- establishment of contractual blanket ceiling mortgages over the Company's and the Subsidiaries' real estate, up to the maximum amount of PLN 1,400m;
- establishing registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the maximum amount of PLN 1,050m);
- creation of registered and financial pledges over amounts credited to bank accounts;
- assignment by way of security of rights under insurance agreements ;
- establishment of financial and registered pledges over the Company's shares in the Subsidiaries; the pledges cover 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.

On March 18th 2012, the syndicated credit facility contracted by the Company pursuant to the credit facility agreement of March 16th 2010 was finally repaid. All security interests related to the facility have been or – in the case of registered pledges and mortgages – will be released.

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

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

- establishment of contractual blanket ceiling mortgages over the Company's and the Subsidiaries' real estate, up to the amount of EUR 70.5m;
- creation of registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of EUR 79.5m.

In addition, in H1 2010, the Company signed an agreement whereby a pledge was created over the Company's equity interest in Pfleiderer OOO for the benefit of the EBRD, to secure repayment of a credit facility advanced to Pfleiderer OOO under the credit facility agreement of December 27th 2005. 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. In connection with the final repayment of the loan by Pfleiderer OOO, in January 2013 the pledge over the shares in Pfleiderer OOO was released.

Security	Company	Bank	Maximum amount of security	Currency	Claim
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	PEKAO S.A.	247,918,868	PLN	Tranche A
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	PEKAO S.A.	79,521,178	PLN	Tranche B
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	BZ WBK S.A.	260,282,382	PLN	Tranche A
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	BZ WBK S.A.	83,486,802	PLN	Tranche B
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	BRE Bank S.A.	206,924,494	PLN	Tranche A
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	BRE Bank S.A.	66,372,008	PLN	Tranche B
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	BGŻ S.A.	149,662,370	PLN	Tranche A
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	BGŻ S.A.	48,004,910	PLN	Tranche B
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	Fortis Bank Polska S.A.	195,221,786	PLN	Tranche A
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	Fortis Bank Polska S.A.	62,615,102	PLN	Tranche B
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	EBRD	52,500,000	EUR	Guarantee
Mortgage over real estate	PFLEIDERER GRAJEWO S.A.	EBRD	18,000,000	EUR	Put option
Pledge over assets	PFLEIDERER GRAJEWO S.A.	PEKAO S.A.	795,000,000	PLN	Tranche A
Pledge over assets	PFLEIDERER GRAJEWO S.A.	PEKAO S.A.	255,000,000	PLN	Tranche B
Pledge over assets	PFLEIDERER GRAJEWO S.A.	EBRD	79,500,000	EUR	guarantee and put option

d) Shareholdings

For detailed information on shareholdings see supplementary notes to the annual separate financial statements (Investments in subsidiaries).

15.2. Financial risks related to the Company's operations

Objectives and methods of financial risk management applied by Pfleiderer Grajewo S.A.

The Company 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 Company 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 Company's losses which could follow from customers' insolvency. This risk is mitigated with the use of receivables insurance and non-recourse factoring services.

The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. Pfleiderer Grajewo S.A. monitors its currency positions with a view to

protecting cash flows rather than profit or loss. To manage the currency risk, it first relies on natural hedging and where necessary uses forward contracts. The time horizon adopted for position monitoring and hedging transactions is up to 12 months.

The objective of financial liquidity management is to protect the Company from insolvency. This objective is pursued through regular projection of debt levels in a five-year horizon, and arrangement of appropriate financing.

a) Credit risk

Transactions which expose Pfleiderer Grajewo S.A. 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 Company operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and factoring. In 2012, approximately 90% of the Company'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).

b) Interest rate risk

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

c) Currency risk

As at December 31st 2012, Pfleiderer Grajewo S.A. was not exposed to currency risk related to foreign currency bank borrowings and other debt instruments except for currency risk related to a EUR 5,000 thousand loan advanced by Pfleiderer Service GmbH.

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. The Group 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. Pfleiderer Grajewo S.A. monitors the currency risk with a view to protecting cash flows.

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

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

d) Price risk associated with financial instruments

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

e) Risk of material cash-flow disruptions

The Pfleiderer Grajewo S.A. is protected against any material cash-flow disruptions thanks to very large 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.

f) Liquidity risk

The Company 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).

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	Current assets / Current liabilities	Receivables + cash / Current liabilities	Average trade and other receivables / Revenue /360	Average trade and other payables / Revenue /360	Average inventories / Revenue /360
Dec 31 2012	0.88	0.81	49 days	51 days	35 days
Dec 31 2011	0.74	0.58	63 days	49 days	32 days

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

The Credit Agreement contains covenants that enforce certain minimum levels of financial ratios calculated based on the Group's consolidated financial statements. The ratios are:

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

On March 28th 2012, the Company's Parent, Pfleiderer AG of Düsseldorf filed a bankruptcy petition. 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, will continue to manage the company and carry out the restructuring process.

On April 17th 2012, the bankruptcy court of Düsseldorf commenced bankruptcy proceedings with respect to Pfleiderer AG and allowed the company to operate as a debtor in possession.

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 Company's Management Board is of the opinion that the declaration of bankruptcy of Pfleiderer AG’s (the Company's Parent) did 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.

Should the current situation of Pfleiderer AG, the ultimate parent, trigger a default under the credit facility agreement, in the opinion of the Management Board of Pfleiderer Grajewo S.A. it is unlikely that the Company will not be able to obtain relevant waivers from its financing banks.

Pfleiderer Grajewo S.A. monitors the ratios on an ongoing basis and, based on its short-term financial plans, reviews the risk of failure to meet the ratios.

The exposure to currency, credit and interest rate risks has not materially changed since the release of the Company's most recent annual report for 2011.

16. 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 Management Board of Pfleiderer Grajewo S.A. 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 Company, whose value would represent 10% or more of the Company’s equity.

17. Corporate governance

Appointment and removal of the management staff

Pursuant to the Company’s Articles of Association, the Management Board members are appointed by the Company’s Supervisory Board. The Articles of Association and resolutions of the Company’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.

Management bodies

The 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 Company's operations with the exception of powers reserved for the Company's other governing bodies under law or the Company'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 Company's Management Board and approved by the Supervisory Board.

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 Company'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 Articles of Association

The Articles of Association of the Company 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.

General Meeting

The General Meeting of the Company 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 Company's web site.

Company shares

The Company 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 Company. Also, there exist no rights related to the securities issued by the Company which would be separate from the ownership of the securities.
No restrictions on transferability of the Company shares are imposed under the Company's Articles of Association or its other internal regulations. Therefore, transfer of ownership of the Company shares is subject only to the limitations imposed by the applicable laws and the stock-exchange regulations.

Financial statements

The Company'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.

Statement of compliance with the corporate governance rules

The Pfleiderer Grajewo Management Board declares that the Company 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 Company and entities with significant connections with the Company. 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.

The Company 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 Company'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 Pfleiderer Grajewo S.A.'s parent or of such parent's subsidiaries,

- they are not employed by Pfleiderer 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 Pfleiderer Grajewo S.A. or Pfleiderer Grajewo S.A.'s parent.

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

18. 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 2010, provided for the review of the interim separate financial statements and interim consolidated financial statements of the Parent, that is Pfleiderer Grajewo S.A., and the Pfleiderer 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 Pfleiderer Grajewo S.A. and the annual consolidated financial statements of the Pfleiderer 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).

19. Audit Committee

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

20. Non-recurring events affecting the Pfleiderer Grajewo Group's financial performance

During the reporting period no non-recurring events took place which could have a bearing on the Group's financial performance in the future.

21. Changes in the composition of the Company's Management Board during the financial year

The composition of the Company's Management Board did not change in the reporting period.

22. Changes in composition of the Management Board subsequent to balance-sheet date

No changes occurred in the composition of the Company's Management Board after December 31st 2012.

23. Changes in the composition of the 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 Company's Supervisory Board.

On September 28th, Mr Hans H. Overdiek resigned from the position of Member of the 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 Company's Supervisory Board.

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

24. Events subsequent to the end of the reporting period

After December 31st 2012, Pfleiderer Grajewo S.A. carried out 7 issues of commercial paper in the form of short-term notes with a view to optimising the Group's financial liquidity management. The notes were issued pursuant to a commercial paper programme agreement executed with Bank PEKAO S.A. on July 22nd 2003 and in accordance with the Polish Bonds Act of June 29th 1995 as złoty-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at their par value. The notes were acquired by subsidiary Pfleiderer Prospan S.A.

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 on sale of a 100% interest in Pfleiderer OOO of Russia.

The Company's proceeds from the transaction totalled EUR 157,485 thousand (PLN 656,711 thousand) and comprised the preliminary selling price of EUR 111,884 thousand (PLN 466,555 thousand) and EUR 31,600 thousand (PLN 131,776 thousand) which the Company will receive as repayment of intra-group loans advanced by the Company 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 carrying amount of all shares in Pfleiderer OOO as disclosed in the Company's accounting books is PLN 187,432 thousand (EUR 44,948 thousand).

Concurrently, on January 23rd 2013 Blitz 11-446 GmbH of Germany, an associate of Pfleiderer Grajewo S.A., as the seller, and Ingka Pro Subholding I B.V., as the buyer, entered into an agreement on the sale of the assets held. The selling price 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 carrying amount of Blitz assets is EUR 57,865 thousand (PLN 241,298 thousand).

In addition, on January 23rd 2013 Pfleiderer MDF OOO of Russia, a subsidiary of Pfleiderer Grajewo S.A., as the seller, and Ingka Pro Subholding I B.V., as the buyer, entered into an agreement under which the seller will sell and the buyer will 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. 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 Blitz assets and Pfleiderer MDF OOO assets comprise the components of a complete production line designed for the MDF production plant project in Russia.

In addition to the sale of the abovementioned assets designated for the MDF project in Russia, Pfleiderer MDF OOO will sell construction assets 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).

Pfleiderer Grajewo S.A. holds a 50% interest in Pfleiderer MDF OOO and a 50% interest in Blitz 11-446 GmbH.

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

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.

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

On March 18th 2012, the Company made a final repayment of the syndicated credit facility incurred by the Company under a credit facility agreement concluded on March 16th 2010 by the Company and its subsidiaries 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. All security interests related to the facility have been or – in the case of registered pledges and mortgages – will be released.

Following the transaction, the Company and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. had no debt outstanding under bank borrowings.

On February 12th 2013, Mr Hans-Kurt von Werder resigned from the position of Member of the Company's Supervisory Board, with effect 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 Pfleiderer Grajewo Supervisory Board.

On February 26th 2013, Pfleiderer Service GmbH, a higher-tier entity, initiated a tender offer for Pfleiderer Grajewo S.A. (the Parent) shares. In accordance with the offer, Pfleiderer Service GmbH, as the higher-tier 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.

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.

25. 2013 financial forecast

Given the current economic climate, the Company 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 **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