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**THE PFLEIDERER GRAJEWO GROUP
INTERIM DIRECTORS' REPORT
ON THE OPERATIONS OF THE PFLEIDERER GRAJEWO GROUP
FOR THE PERIOD
JANUARY 1ST – JUNE 30TH 2013**

THE PFLEIDERER GRAJEWÓ GROUP

Interim Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st – June 30th 2013

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**Interim Directors' Report on the operations of the Pfleiderer Grajewo Group in the period
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1. Financial highlights

	Jan 1 - Jun 30 2013	Jan 1 - Jun 30 2012	Jan 1 - Jun 30 2013	Jan 1 - Jun 30 2012
	PLN '000		EUR '000	
Revenue	695,713	690,822	165,096	163,524
Operating profit	36,827	33,989	8,740	8,046
Profit before tax	21,115	4,542	5,011	1,075
Net profit attributable to owners of the parent	110,120	17,866	26,133	4,229
Net cash from operating activities	(61,347)	46,121	(14,558)	10,917
Net cash from investing activities	662,270	(15,968)	157,159	(3,780)
Net cash from financing activities	(502,261)	(15,720)	(119,189)	(3,721)
Total net cash flow	98,662	14,433	23,412	3,416
Basic earnings per share (PLN/EUR)	2,22	0,36	0,53	0,09
Diluted earnings per share (PLN/EUR)	2,22	0,36	0,53	0,09
PLN/EUR average exchange rate			4,2140	4,2246

	Jun 30 2013	Dec 31 2012	Jun 30 2013	Dec 31 2012
	PLN '000		EUR '000	
Total assets	1,215,805	1,807,032	280,838	442,012
Total liabilities	492,786	1,221,867	113,828	298,877
Non-current liabilities	172,047	225,978	39,741	55,276
Current liabilities	320,739	995,889	74,087	243,601
Total equity	723,019	585,165	167,010	143,135
Share capital	16,376	16,376	3,783	4,006
Number of shares	49,624,000	49,624,000	49,624,000	49,624 000
Book value per share (PLN/EUR)	14.57	11.79	3.37	2.88
PLN/EUR exchange rate as at the reporting date			4.3292	4.0882

**Interim Directors' Report on the operations of the Pfleiderer Grajewo Group in the period
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The Pfleiderer Grajewo Group consists of single-division enterprises. The Group's parent is Pfleiderer Grajewo S.A., with 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 Section B of the Commercial Register, under entry No. 270. Subsequently, on May 9th 2001, it was registered by the District Court of Białystok, 12th Commercial Division of the National Court Register, under entry No. KRS 0000011422. On September 18th 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 Company's 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, Pfleiderer 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 companies of the Pfleiderer Grajewo Group:

Pfleiderer Prospan S.A. – a joint-stock company entered in the Polish Commercial Register maintained by the District Court of Kalisz under No. RHB 1754, on September 23rd 1997, under the name of Zakłady Płyt Wiórowych Prospan S.A.; and subsequently, on September 17th 2001, registered with the District Court of Łódź-Śródmieście in Łódź, 20th 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

Silekol Sp. z o.o. – entered in the National Court Register by the District Court of Opole, 8th Commercial Division of the National Court Register of Opole, under No. KRS 0000225788, on January 6th 2005.

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

Pfleiderer MDF Sp. z o.o. – entered in the National Court Register by the District Court of Białystok, 12th Commercial Division of the National Court Register in Białystok, under No. KRS 174810, on October 9th 2003.

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

Jura Polska Sp. z o.o. – entered into the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under No. KRS 149282, on November 24th 1999.

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

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

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

Pfleiderer Services Sp. z o.o. – entered in the National Court Register by the District Court of Białystok, 12th 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.

Grajewo OOO – a limited liability company incorporated under the laws of the Russian Federation, registered on August 12th 2009 by Interregional Inspection No. 9 of the Ministry of Duties and Taxes of the Russian Federation for the Novgorod District.

Uniform Registration Number: 1095321004130
Tax Identification Number: 5321135070
Registered office: 21 Studenicheskaya street 43 Veliky Novgorod, Russia

Jointly-controlled entities and associates of the Pfleiderer Grajewo Group

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

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

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

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

The business of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., and Pfleiderer MDF Sp. z o.o. 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. The other companies provide services and supply raw materials to the Group

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entities.

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

As at June 30th 2013, the composition of the Parent's Management Board was as follows:

- Wojciech Gątkiewicz - President of the Management Board
- Rafał Karcz - Member
- Dariusz Tomaszewski - Member

On June 26th 2013, Mr Radosław Wierzbicki resigned from the position of Member of the Management Board – Chief Operating Officer of the Pfleiderer Grajewo S.A. At the same time, Mr Radosław Wierzbicki resigned from the position of Member of the Management Board of Pfleiderer Prospan S.A. and Member of the Management Board of Pfleiderer MDF Sp. z o.o., subsidiaries of Pfleiderer Grajewo S.A.

As at June 30th 2013, the composition of the Parent's Supervisory Board was as follows:

- Michael Wolff Chairman of the Supervisory Board
- Gerd Hammerschmidt Member
- Jochen Schapka Member
- Richard Mayer Member
- Jan Woźniak Member

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.

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3. Structure of the Group

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

Consolidated subsidiaries

- 1 Pfleiderer Prospan S.A., Wieruszów
- 2 Silekol Sp. z o.o., Kędzierzyn-Koźle,
- 3 Pfleiderer MDF Sp. z o.o., Grajewo
- 4 Jura Polska Sp. z o.o., Grajewo
- 5 Unifloor Sp. z o.o., Wieruszów
- 6 Pfleiderer OOO, Novgorod (Rosja) – subsidiary until 23.01.2013
- 7 Pfleiderer MDF OOO, Novgorod (Rosja) - subsidiary until 23.01.2013
- 8 Grajewo OOO, Novogrod (newly founded company)
- 9 Pfleiderer Services Sp. z o.o., Grajewo

Jointly-controlled entities

- 10 Blitz 11-446 GmbH, Neumarkt

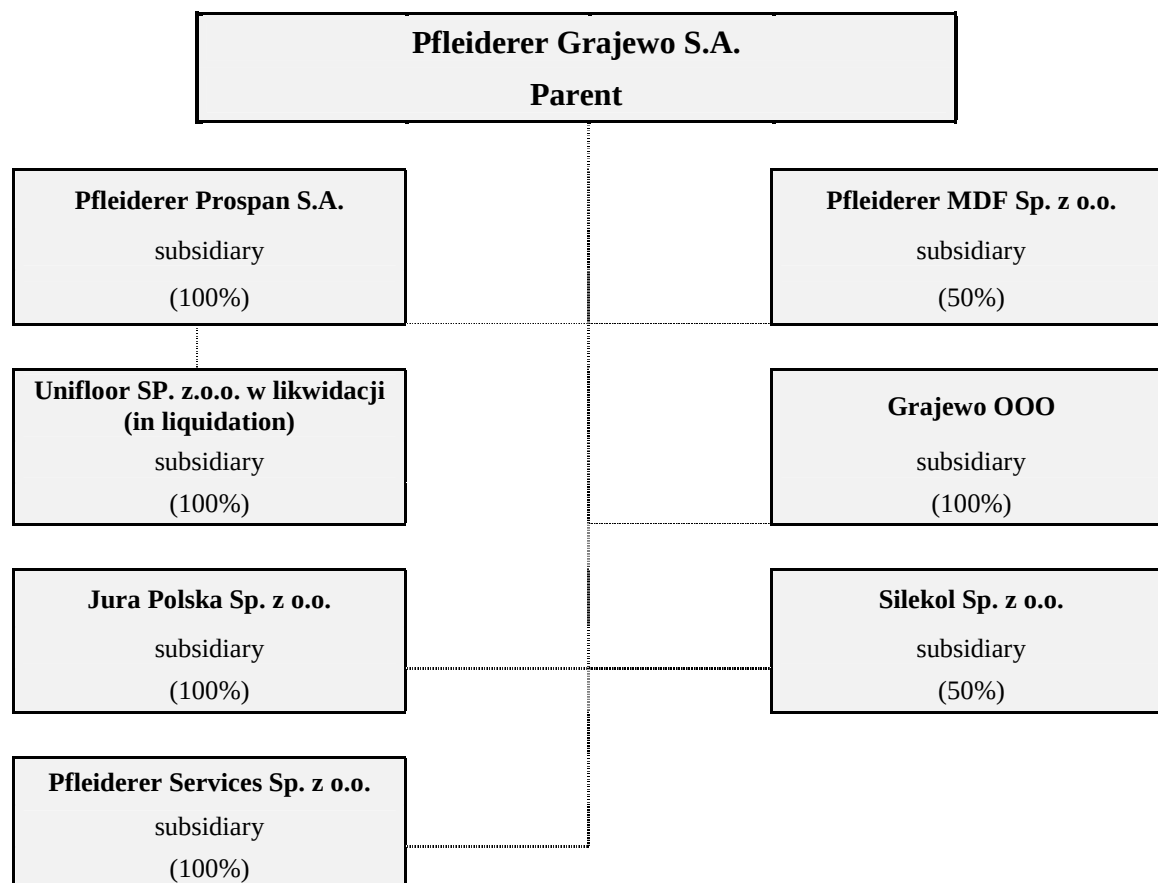
Associates

- 11 Pfleiderer MDF OOO Novgorod (Rosja) – associate from 23.01.2013

- (5) indirectly through Pfleiderer Prospan S.A.
- (6) sale of the shares on January 23rd 2013
- (7) (11) sale of the assets and loss of control on January 23rd 2013
- (8) purchase of shares on April 26th 2013

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The Group's structure as at June 30th 2013:



The main shareholder of Pfeiderer Grajewo S.A., the parent, is Pfeiderer Service GmbH, which holds 65.11% of the Company shares and the same proportion of the total vote at its General Meeting.

The Parent, Pfeiderer Grajewo S.A., holds 50% of the shares and votes in subsidiaries Pfeiderer MDF Sp. z o.o. and Silekol Sp. z o.o., but it continues to exercise control over these entities as it has the power to govern their financial and operating policies through the right to appoint and remove from office a majority of the management board members of the entities.

50% of shares in Pfeiderer MDF Sp. z o.o. are held by Pfeiderer Service GmbH. 50% of shares in Silekol Sp. z o.o. are held by Pfeiderer Holzwerkstoffe GmbH.

On January 23rd 2013, Pfeiderer Grajewo S.A. (the Parent), 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 Pfeiderer OOO of Russia, as well as of assets of Pfeiderer MDF OOO of Russia (a subsidiary) and the jointly-controlled entity Blitz 11-446 GmbH of Germany. At the same time, under the agreements, the Pfeiderer Grajewo Group lost control over its subsidiary Pfeiderer MDF OOO. As of January 23rd 2013, MDF OOO is an associate within the Pfeiderer Grajewo Group.

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

Shareholder structure	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 2013 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.

4 Pfleiderer Grajewo S.A. shares or rights to Pfleiderer Grajewo S.A. shares held by management and supervisory staff of the Parent

In the period from January 1st 2013 to the date of this Directors' Report, the number of Pfleiderer Grajewo S.A. (the Parent) shares held by members of the Management Board and the Supervisory Board of the Parent remained unchanged relative to December 31st 2012 and as at the date of this Directors' Report was as follows:

- Wojciech Gątkiewicz, President of the Management Board, held 5,400 shares in Pfleiderer Grajewo S.A.;
- Rafał Karcz, Member of the Management Board, held 3,472 shares in Pfleiderer Grajewo S.A.;
- Dariusz Tomaszewski, Member of the Management Board, held 4,108 shares in Pfleiderer Grajewo S.A.;
- Jan Woźniak, Member of the Supervisory Board, held 10,000 shares in Pfleiderer Grajewo S.A.

The other members of Pfleiderer Grajewo S.A.'s Supervisory Board did not hold any shares in the Company.

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

<i>all amounts in PLN thousand</i>	Jun 30 2013	Dec 31 2012
Equity (attributable to owners of the parent)	654,143	527,392
Non-controlling interests	68,876	57,773
Total equity	723,019	585,165
Non-current liabilities	172,047	225,978
Long-term capital (total equity + non-current liabilities)	895,066	811,143
Current liabilities	320,739	995,889

In H1 2013, the Group financed its operations chiefly with long- and short-term bank borrowings and a loan from Pfleiderer Service GmbH - related entity.

On June 26th and 27th 2013, Pfleiderer Grajewo S.A. ("the Parent") and the subsidiaries Pfleiderer Prospan SA and Silekol Sp. z o.o. entered into new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Parent and the subsidiaries for the next 5 years.

As at June 30th 2013, the Group's debt under bank borrowings amounted to PLN 221,707 thousand (as at December 31st 2012: PLN 677,829 thousand).

As at June 30th 2013, liabilities under borrowings from related entities were PLN 8,933 thousand (compared with PLN 33,269 thousand as at December 31st 2012).

For more information on bank borrowings and loans from related entities, see Note 7.1 of this Directors' Report.

Moreover, the Pfleiderer Grajewo Group supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. z o.o. The above financing of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., and Pfleiderer MDF Sp. z o.o. is of up to PLN 200m. Moreover, the subsidiary Silekol Sp. z o.o. is party to a non-recourse factoring agreement with WBK Faktor Sp. z o.o. for up to PLN 15m. The above agreements have an off-balance sheet status.

The internal financing in the Pfleiderer Grajewo Group comprises loans advanced by Pfleiderer Grajewo S.A. to Pfleiderer MDF Sp. z o.o., a subsidiary, and to Pfleiderer MDF OOO, an associate, as well as issues and purchases of short-term notes (commercial paper). The notes are issued by Pfleiderer Grajewo S.A. and acquired by Pfleiderer 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.

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5.2 Revenue and profit

In the period January 1st – June 30th 2013, the Group's revenue was PLN 695,713 thousand, up by PLN 4.9m (0.7%) year on year.

The table below presents revenue by product group:

<i>all amounts in PLN thousand</i>	Jan 1 – Jun 30 2013	% share	Jan 1 – Jun 30 2012	% share
Revenue from sales of products	662,987	95.3%	658,993	95.4%
Chipboard	497,937	71.6%	539,238	78.1%
Finish foil (foil, edge banding, edge foil)	40,548	5.8%	20,747	3.0%
Adhesive resins	122,176	17.6%	95,433	13.8%
Other chemicals	2,326	0.3%	3,575	0.5%
Revenue from sales of merchandise and materials	16,549	2.4%	20,344	2.9%
Revenue from sales of materials	3,313	0.5%	2,408	0.3%
Revenue from sales of merchandise	13,236	1.9%	17,935	2.6%
Revenue from rendering of services	16,177	2.3%	11,486	1.7%
Total sales	695,713	100.0%	690,822	100.0%

In the period under review, i.e. January 1st – June 30th 2013, revenue from sales of products grew slightly, by 0.6% year on year, while revenue from sales of merchandise and materials fell by 19%. Revenue from rendering of services grew by 41% year on year.

In the period January 1st – June 30th 2013, the Group's operating profit grew by PLN 2,838 thousand (8%) and amounted to PLN 36,827 thousand. Net profit from continued operations amounted to PLN 26,338 thousand and grew by PLN 24,036 thousand year on year, mainly due to lower finance cost in the period under review.

5.3 Headcount and remuneration at the Pfleiderer Grajewo Group

As at June 30th 2013, the Group employed 1,258 staff, including the management staff and persons working under managerial contracts or on the basis of appointment by the Supervisory Board (December 31st 2012: 1,625 staff).

The Group's employment structure as at the last day of the reporting period was as follows:

	Jun 30 2013	Dec 31 2012
Employees directly involved in production	592	802
Employees indirectly involved in production	296	405
Administration, office and other employees	370	418
	1,258	1,625

The remuneration, including bonuses, paid and payable to members of the Parent's Management Board for the reporting period totalled PLN 1,411 thousand. In addition, members of the parent's Management Board received remuneration of PLN 1,411 thousand from Pfleiderer Prospan S.A., a subsidiary.

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

The managerial contract with Mr Rafał Karcz, member of the Management Board, contains a provision entitling Mr Karcz to a one-off severance pay equal to one month's remuneration if the contract is terminated.

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 remuneration paid to members of the Supervisory Board of Pfleiderer Grajewo S.A. for the period January 1st – June 30th 2013 amounted to PLN 312 thousand.

As at June 30th 2013, Mr Dariusz Tomaszewski, member of the Management Board, had outstanding debt of PLN 26 thousand (December 31st 2012: PLN 26 thousand) under a loan from Pfleiderer Prospan S.A., a subsidiary. The other members of the Management Board had no outstanding debt under any loan agreements with the Group.

6 Material related-party transactions

For information on related-party transactions as at June 30th 2013 and in the period from January 1st to June 30th 2013, see Note 13 in the supplementary notes to the interim consolidated financial statements of the Pfleiderer Grajewo Group.

In the period from January 1st to June 30th 2013, the Group did not conclude any related-party transactions other than on arm's length basis.

7. Financial instruments

7.1 Overview of the financial instruments

a) Derivatives

Forward and swap transactions consist in purchase/sale of foreign currency at a predetermined rate.

As at June 30th 2013, the Group held 19 open forward contracts, totalling EUR 20m. 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 Group 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 in 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 June 30th 2013, the fair value of the open forward contracts was PLN (1,490) thousand. In the first half of 2013, the result on settled forward contracts was PLN 418 thousand.

In H1 2013, Silekol Sp. z o.o. (a subsidiary) executed one swap transaction for an amount of EUR 415

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thousand. In H1 2013, Silekol Sp. z o.o. (a subsidiary) generated a gain of PLN 16 thousand on swap transactions. As at June 30th 2013, the subsidiary has one open swap contract.

b) Borrowings received

As at June 30th 2013, liabilities under borrowings from related entities were PLN 8,933 thousand (compared with PLN 33,269 thousand as at December 31st 2012). The liabilities include a PLN 23.9m loan advanced (in the Polish currency) to Pfleiderer MDF Sp. z o.o. by Pfleiderer Service GmbH to finance its day-to-day operations. The loan is subordinated to an investment credit facility from PKO BP S.A., and will be repaid (principal and interest) once the credit facility has been fully repaid. Currently, the debt outstanding under the loan is PLN 8.9m;

c) Bank borrowings

On June 26th and 27th 2013, Pfleiderer Grajewo S.A. ("the Parent") and the subsidiaries Pfleiderer Prospan SA and Silekol Sp. z o.o. entered into new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Group for the next five years.

On June 26th 2013, the Parent entered into two credit facility agreements with Bank Millennium SA, for an aggregate of PLN 100,000,000, including a PLN 75,000,000 multi-purpose credit facility agreement and an up to PLN 25,000,000 overdraft facility agreement.

At the same time, Pfleiderer Prospan SA, a subsidiary of the Parent, entered into an overdraft facility agreement with Bank Millennium SA, for up to PLN 10,000,000. Moreover, the subsidiary Silekol Sp. z o.o. entered into an overdraft facility agreement with Bank Millennium SA, for up to PLN 10,000,000. The total liabilities of all the three borrowers under the four credit facility agreements with Bank Millennium SA may not exceed the aggregate of PLN 100,000,000. The multi-purpose credit facility agreement provides for the repayment of the entire loan after five years from its execution, while the overdrafts are to be repaid in full after three years. The facilities will be used to finance day-to-day operations of the borrowers.

On June 26th 2013, the Parent entered into a PLN 75,000,000 credit facility agreement with Alior Bank SA, to ensure financing of its day-to-day operations. The facility is to be repaid in full after five years from the execution of the agreement. At the same time, the Parent and the subsidiaries Pfleiderer Prospan SA and Silekol Sp. z o.o. entered into an overdraft facility agreement with Alior Bank SA, for up to PLN 25,000,000, under which the bank granted the Parent an overdraft limit of PLN 25,000,000 and separate sub-limits of PLN 10,000,000 to Pfleiderer Prospan SA and Silekol Sp. z o.o. The objective of this facility, repayable in full after three years from the execution of the agreement, is to finance the day-to-day operations of the borrowers. The total liabilities of the three borrowers under the two agreements with Alior Bank SA may not exceed an aggregate of PLN 100,000,000.

On June 26th 2013, the Parent entered into a PLN 45,000,000 multi-purpose credit facility agreement with Bank Zachodni WBK SA. The credit facility, designed to ensure liquidity and finance capital expenditure, is to be repaid in full after five years from the execution of the agreement. At the same time, the Parent and the subsidiaries Pfleiderer Prospan SA and Silekol Sp. z o.o. entered into an overdraft facility agreement with Bank Zachodni WBK SA, for up to PLN 15,000,000 (a joint overdraft limit for all the three borrowers). The facility, designed to ensure liquidity and finance capital expenditure, is to be repaid in full after three years from the execution of the agreement. The total liabilities of the three borrowers under the two agreements with Bank Zachodni WBK SA may not exceed an aggregate of PLN 60,000,000.

On June 27th 2013, the Parent entered into a PLN 40,000,000 multi-purpose credit facility agreement with

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Bank Ochrony Środowiska SA to finance the Parent's day-to-day operations. The facility is to be repaid after five years from the date of execution of the agreement.

Additionally, the subsidiary Pfleiderer MDF Sp. z o.o. has an investment credit facility from PKO BP S.A., repayable in instalments by July 15th 2016 (as at June 30th 2013, the outstanding amount under the loan was PLN 168,251 thousand), and a PLN 55m multi-purpose credit facility, repayable by July 31st 2013 (as at June 30th 2013, the outstanding amount under the facility was PLN 53,414thousand). On July 29 2013 annex to agreement extending the repayment period to 30 September 2013 was signed.

Other subsidiaries had no debt outstanding under bank borrowings as at June 30th 2013.

For information on interest rates applicable to the credit facilities contracted from banks, see Note 8 in the supplementary notes to the interim condensed consolidated financial statements of the Group.

7.2 Financial risks related to the Group's operations

a) Objectives and methods of financial risk management adopted by the 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,
- market risk, including interest rate risk and currency risk,
- liquidity risk.

The objective behind credit risk management is to reduce the Group's losses which could follow from customers' insolvency. This risk is mitigated with the use of receivables insurance and factoring services. The purpose of market risk management is to control and maintain the Group's exposure to market risk within assumed parameters. The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position with a view to protecting cash flows. To manage the currency risk, it first relies on natural hedging and where necessary uses forward contracts. The time horizon adopted for position monitoring and hedging transactions is up to 12 months.

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

b) Credit risk

In accordance with the Management Board's policy, credit risk exposure is monitored on an ongoing basis. All customers requiring credit in excess of a certain amount are evaluated in terms of credit worthiness.

Credit risk related to trade receivables is limited as the Group's customer base is extensive and diversified. 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 factoring. As at June 30th 2013, approximately 90% of total trade receivables from non-related entities were covered with trade credit insurance. The insurance secures credit risk – if a customer fails to pay, the insurer covers the loss (the insurance deductible is 10%).

In the period from January 1st to June 30th 2013, the Group did not incur any significant losses resulting from failure to collect receivables from customers. Impairment losses are recognised on uninsured receivables, as well as on amounts corresponding to the Group's deductibles in relation to receivables insured, on the basis of a

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detailed analysis of accounts receivable.

c) Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings and loans received. Interest rate risk is connected with interest payments under instruments bearing interest at floating rates. The Group does not hedge the interest rate risk.

d) Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of merchandise and materials, and sale of finished products. 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 on-going basis and hedges open positions – first through natural hedging and then through forward and swap transactions. The Group monitors its currency risk exposure in terms of cash flows.

In H1 2013, the Group entered into a number of EUR/PLN forward and swap contracts to hedge against currency risk on planned trade transactions. As at June 30th 2013, the Group had 19 open EUR/PLN forward contracts hedging against currency risk related to business transactions. The Group has one open swap contract as at June 30th 2013.

e) Liquidity risk

As at June 30th 2013, the Pfleiderer Grajewo Group's debt under bank borrowings amounted to PLN 221.7m and the value of its undrawn credit facilities was PLN 300m (mostly long-term credit limits). The Group also holds cash in the amount of PLN 116.2m.

The exposure to currency, credit and interest rate risks has not materially changed since the release of the Group's most recent annual report for 2012.

8 Sureties and security interests over the Group's assets

The Group did not issue any sureties or guarantees.

- As at June 30th 2013, the Group's assets were encumbered with the following security interests: a mortgage over property and a registered pledge over plant and equipment.

The mortgage and the registered pledge serve as security for an investment credit facility granted to Pfleiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose facility contracted 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 secures liabilities of up to PLN 450,000 thousand and has been created over a floating group of assets owned by Pfleiderer MDF Sp. z o.o. (floating charge). The pledge is reviewed on a quarterly basis to take account of changes in the company's movable property (plant and equipment, vehicles). As at June 30th 2013, the Group's debt under the investment credit facility totalled PLN 168.3m (December 31st 2012: PLN 188.1m).

- Mortgage over a property located at ul. Wiórowa, Grajewo, and a registered pledge over assets

A mortgage of up to PLN 80,000 thousand created over the property located at ul. Wiórowa in Grajewo, where the MDF plant is situated, serves as security for the multi-purpose credit facility for the total amount of PLN 54,000 thousand granted to the Group by PKO Bank Polski S.A. under a credit facility agreement executed by Pfleiderer MDF Sp. z o.o. on August 29th 2007.

The pledge was created under an agreement on registered pledge over assets dated July 30th 2010, concluded

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between Pfleiderer MDF Sp. z o.o. and PKO Bank Polski S.A. The pledge, with the maximum security amount of PLN 83,163 thousand, was created for the benefit of PKO Bank Polski S.A. to secure its claims under the PLN 54,000 thousand multi-purpose credit facility. The pledge was created in connection with the extension of the term of the working capital credit facility by three years, until September 30th 2013. The same assets are also encumbered with a pledge created earlier for the benefit of PKO Bank Polski S.A. in connection with the investment credit facility agreement of January 15th 2007.

As at June 30th 2013, the debt under the multi-purpose credit facility totalled PLN 53.4m (December 31st 2012: PLN 32.5m).

- Mortgages over developed properties located in Grajewo and Wieruszów, on which Pfleiderer Grajewo SA's and Pfleiderer Prospan SA's production facilities are located, created for the benefit of four banks (Bank Millennium SA, Alior Bank SA, Bank Zachodni WBK SA, and BOŚ SA) lending to Pfleiderer Grajewo SA, Pfleiderer Prospan SA and Silekol Sp. z o.o. under credit facility agreements totalling PLN 300m, entered into by Pfleiderer Grajewo S.A. (the Parent) and Pfleiderer Prospan SA and Silekol Sp. z o.o. (subsidiaries).

Equal-seniority mortgages over developed properties: the production facility in Grajewo, owned by the Parent, and the production facility in Wieruszów, owned by Pfleiderer Prospan SA, for the benefit of four banks, comprise the following:

- a mortgage of up to PLN 97,500,000 for the benefit of Bank Millennium SA, securing a PLN 75,000,000 credit facility extended to Pfleiderer Grajewo SA (a multi-product credit facility agreement), an overdraft of up to PLN 25,000,000 for Pfleiderer Grajewo SA, an overdraft of up to PLN 10,000,000 for Pfleiderer Prospan SA, and an overdraft of up to PLN 10,000,000 for Silekol Sp. z o.o.,
- a mortgage of up to PLN 150,000,000 for the benefit of Alior Bank SA, securing a PLN 75,000,000 credit facility extended to Pfleiderer Grajewo SA, and an overdraft of up to PLN 25,000,000 for Pfleiderer Grajewo SA, Pfleiderer Prospan SA, and Silekol Sp. z o.o.,
- a mortgage of up to PLN 120,000,000 for the benefit of Bank Zachodni WBK SA, securing a PLN 45,000,000 credit facility extended to Pfleiderer Grajewo SA, and an overdraft of up to PLN 15,000,000 for Pfleiderer Grajewo SA, Pfleiderer Prospan SA, and Silekol Sp. z o.o.,
- a mortgage of up to PLN 60,000,000 for the benefit of Bank Ochrony Środowiska SA, securing a PLN 40,000,000 credit facility extended to Pfleiderer Grajewo SA.

- At the same time, to secure credit facilities for a total amount of PLN 300,000,000, extended to the Group by four banks (Bank Millennium SA, Alior Bank SA, Bank Zachodni WBK SA, and BOŚ SA) under credit facility agreements entered into by Pfleiderer Grajewo S.A. (the Parent) and Pfleiderer Prospan SA and Silekol Sp. z o.o. (subsidiaries), a pledge has been created over the plant and equipment of the two production facilities in Grajewo and Wieruszów, owned by Pfleiderer Grajewo SA and Pfleiderer Prospan SA.

The maximum security amounts under the registered pledge agreements are as follows:

- in the case of the pledge for the benefit of Bank Millennium SA – PLN 66,150,000 (the equipment owned by Pfleiderer Grajewo SA) and PLN 46,350,000 (the equipment owned by Pfleiderer Prospan SA).
- in the case of the pledge for the benefit of Alior Bank SA – PLN 200,000,000 for all pledged plant and equipment
- in the case of the pledge for the benefit of Bank Zachodni WBK SA – PLN 120,000,000 for all pledged plant and equipment
- in the case of the pledge for the benefit of Bank Ochrony Środowiska SA – PLN 14,257,880 for all pledged plant and equipment

Additionally, both Pfleiderer Prospan S.A. and Silekol Sp. z o.o. issued guarantees of up to PLN 115,000,000 for the liabilities of the Parent under the bank loans from Bank Millennium SA and Alior Bank SA.

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On April 2nd 2012, Pfleiderer Grajewo S.A. (the Parent) and its subsidiary Pfleiderer Prospan S.A. 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. provided additional information required by the Office. At present, based on available information, the Parent's Management Board is not able to assess the risk or specify the expected 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 debts of the Group companies, whose value would represent 10% or more of the Parent's equity.

10 The Management Board's opinion on the feasibility of meeting previously published performance forecasts

The Pfleiderer Grajewo Group did not publish any forecasts for 2013. Given the current economic climate, the Group will also refrain from publishing any forecast for 2014 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

11 Factors with a bearing on the Group's performance in the next period

The favourable structure of raw wood purchases, stable prices of key chemical feedstocks and the downward trend in the prices of melamine, urea and papers allow the Group to expect positive performance in H2 2013. Already in June reported apparent recovery in the market, particularly in the field of laminated and raw chipboard. The expected improvement in July and August aimed at expanding volumes, but there is no prospect of price increases.

For export markets, the situation is less optimistic, highly influenced by the intense competition and increased customer expectations. Given the worrying statistics showing the drop in furniture sales and considerable pressure on the market margins on sales will not improve significantly.

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12 Events subsequent to the balance-sheet date

After the June 30, 2013, there were no material events that would require disclosure in these interim condensed consolidated financial statements of Pfleiderer Grajewo S.A.

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

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

Grajewo, August 23rd 2013