

DIRECTORS' REPORT

on the Operations of the Pfleiderer Grajewo Group **in the period January 1st – June 30th 2010**

FINANCIAL HIGHLIGHTS

	Jan 1-Jun 30 2010	Jan 1-Jun 30 2009	Jan 1-Jun 30 2010	Jan 1-Jun 30 2009
Sales revenue	620,604	558,690	154,988	123,647
Operating profit/loss	(2,005)	9,504	(501)	2,103
Pre-tax loss	(18,163)	(38,456)	(4,536)	(8,511)
Net loss attributable to owners of the parent	(10,476)	(28,081)	(2,616)	(6,215)
Net cash provided by/(used in) operating activities	1,793	25,334	448	5,607
Net cash provided by/(used in) investing activities	(16,419)	(114,568)	(4,100)	(25,356)
Net cash provided by/(used in) financing activities	42,433	76,691	10,597	16,973
Total net cash flow	27,807	-12,543	6,944	-2,776
Basic loss per share (PLN / EUR)	(0.21)	(0.57)	(0.05)	(0.06)
Diluted loss per share (PLN / EUR)	(0.21)	(0.57)	(0.05)	(0.06)
	PLN '000		EUR '000	
	Jun 30 2010	Dec 31 2009	Jun 30 2010	Dec 31 2009
Total assets	1,994,969	1,872,896	481,202	455,892
Liabilities	1,442,348	1,355,583	347,906	329,970
Non-current liabilities	1,110,601	452,358	267,886	110,111
Current liabilities	331,747	903,225	80,020	219,859
Equity	552,621	517,313	133,297	125,922
Share capital	16,376	16,376	3,950	3,986
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000
Book value per share (PLN / EUR)	11.14	10.42	2.69	2.54

GENERAL INFORMATION

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

The parent undertaking, under its former name of Zakłady Płyt Wiórowych S.A. of Grajewo, was originally registered on July 1st 1994 by the District Court, Commercial Court of Łomża, in the Commercial Register in Section B under entry No. 270. Subsequently, on May 9th 2001, it was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On September 18th 2002, the Management Board of Pfleiderer Grajewo S.A. received the decision of the District Court of Białystok on entering the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Company's former name was changed to Pfleiderer Grajewo S.A. The registered office of Pfleiderer Grajewo S.A. is situated at ul. Wiórowa 1, Grajewo, Poland. The Company shares are traded on the public market. In accordance with the Polish Classification of Business Activities, Pfleiderer Grajewo S.A. is registered under No. 1621 Z.

Below is presented a brief description of the other undertakings of the Pfleiderer Grajewo Group:

Pfleiderer Prospan S.A. – a joint-stock company entered into 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.; later, on September 17th 2001, registered at the District Court of Łódź-Śródmieście, XX Division of the National Court Register, under No. KRS 0000042082.

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

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

Uniform Registration Number: 1035301200164
NIP (Tax Identification Number): 5310011273
Registered office: 106 Tsentralnaya Street, Novgorod Oblast 173502, the Russian Federation

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

Uniform Registration Number: 1075321005396
Tax Identification Number: 5310014147
Registered office: 106 Tsentralnaya Street, Novgorod Oblast 173502, the Russian Federation

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

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

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

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

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

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

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

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

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

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

As at December 31st 2007 the company's operations were suspended.

Pfleiderer Grajewo S.A.'s, Pfleiderer Prospan S.A.'s, Pfleiderer MDF Sp. z o.o.'s and Pfleiderer OOO's business consists in the manufacturing of wood products, manufacturing and veneering of chipboard, impregnation of paper, trading activities in Poland and abroad, provision of industrial services related to the Company's core business as well as other services based on the undertakings' resources. The other companies provide services and raw materials to the Group undertakings.

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

As at June 30th 2010, the Management Board of Pfleiderer Grajewo S.A. was composed of:

- | | |
|------------------------|------------------|
| 1. Wojciech Gątkiewicz | - President |
| 2. Johann Bitzi | - Vice President |
| 3. Rafał Karcz | - Member |
| 4. Dariusz Tomaszewski | - Member |
| 5. Radosław Wierzbicki | - Member |

On May 5th 2010, the Supervisory Board of Pfleiderer Grajewo S.A. appointed Mr Johann Bitzi as Vice-President of the Company's Management Board.

Composition of the Supervisory Board as at June 30th 2010:

- | | |
|----------------------|------------|
| 1. Paweł Wyrzykowski | - Chairman |
| 2. Hans H. Overdiek | - Member |
| 3. Michael Wolff | - Member |
| 4. Heiko Graeve | - Member |
| 5. Jan Woźniak | - Member |

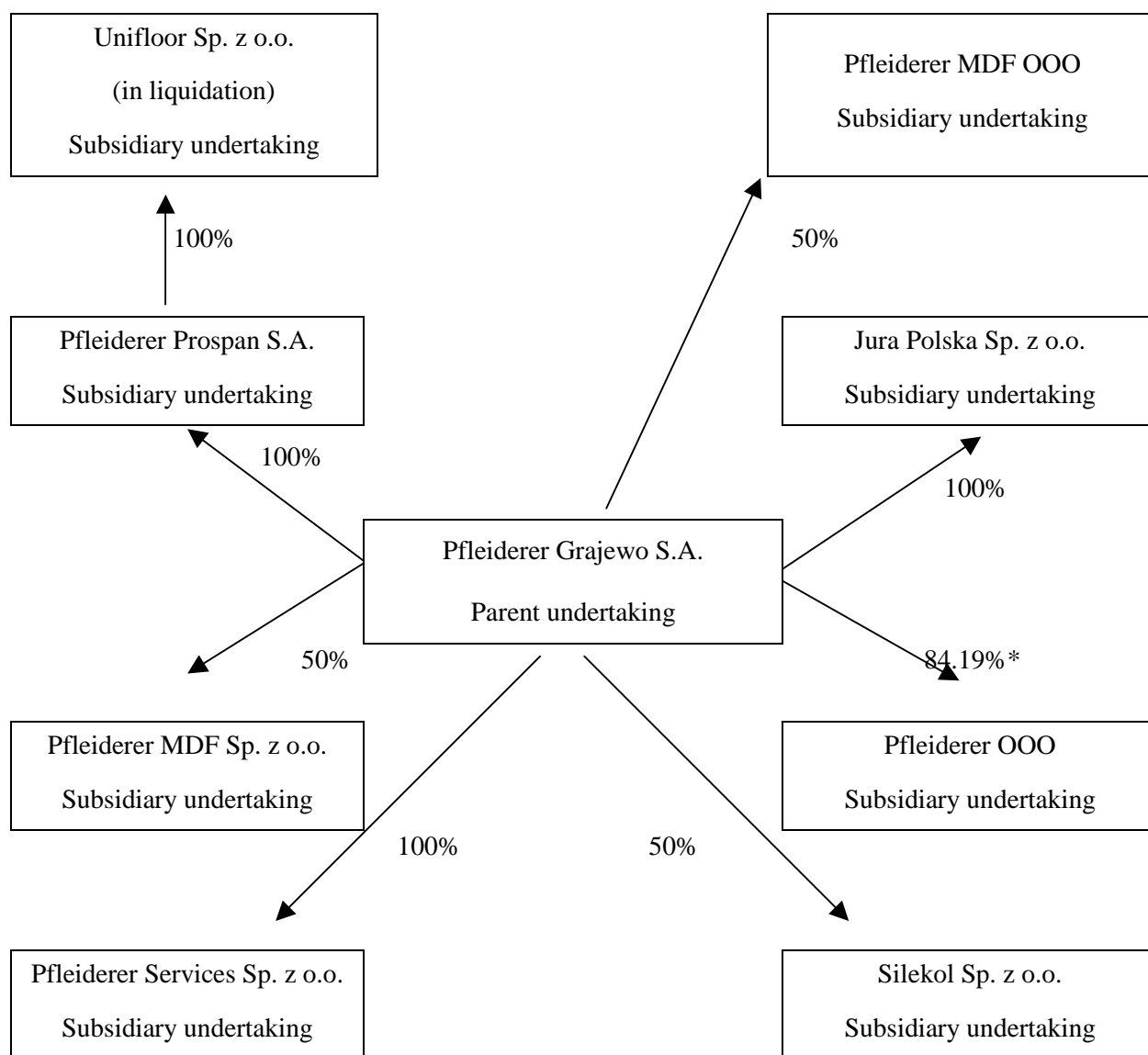
On January 12th 2010, the General Shareholders Meeting appointed two new Members to the Supervisory Board of Pfleiderer Grajewo S.A.: Mr Heiko Graeve and Mr Jan Woźniak.

Pfleiderer Grajewo S.A.'s shareholder structure:

Shareholder structure based on the latest notifications received from the company's shareholders	Number of shares	% of share capital held	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%

Pfleiderer Grajewo S.A. is a subsidiary undertaking of Pfleiderer Service GmbH, which holds 65.11% of the shares in Pfleiderer Grajewo S.A. In the period January 1st – June 30th 2010, the number of the Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change

Structure of the Group as at June 30th 2009:



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

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

* Pfeiderer Grajewo S.A. holds a call option enabling it to repurchase the shares acquired by the EBRD at any time. EBRD holds a put option enabling it to sell the shares to Pfeiderer Grajewo S.A. if the financing agreements are breached or after June 19th 2012. Therefore, from the parent undertaking's point of view, Pfeiderer OOO is treated as a subsidiary undertaking wholly-owned by Pfeiderer Grajewo S.A.

The remuneration of the management staff of the Group, including bonuses, paid and payable for the reporting period was PLN 1,685 thousand.

The managerial contract concluded with Wojciech Gątkiewicz, President of the Management Board, provides for compensation payable in the event of early termination of the contract by the Company. Under the contract, the amount of the compensation is PLN 2,556 thousand less the sum of fixed monthly salaries received by Wojciech Gątkiewicz from the Pfleiderer Grajewo Group companies during the life of the contract. Wojciech Gątkiewicz is not entitled to receive the compensation if the grounds for terminating the managerial contract by the Company are either material non-performance or improper performance of the contract.

1. Number of Pfleiderer Grajewo S.A. Shares Held by the Management Staff of Pfleiderer Grajewo S.A.

As at the publication date of this report the holdings of the Management Board members were as follows:

- Mr Wojciech Gątkiewicz, President of the Management Board, held 3,000 Company shares (as at March 31st 2010: 2,500 shares; the 500 additional shares were acquired on July 2nd 2010);
- Mr Johann Bitzi, Vice-President of the Management Board, did not hold any Company shares;
- Mr Rafał Karcz, Member of the Management Board, held 3,472 Company shares;
- Mr Dariusz Tomaszewski, Member of the Management Board, held 4,108 Company shares;
- Mr Radosław Wierzbicki, Member of the Management Board, held 2,000 Company shares.

Mr Paweł Wyrzykowski, Chairman of the Supervisory Board, held 4,080 Company shares. Other members of Pfleiderer Grajewo S.A.'s Supervisory Board did not hold any shares in the Company.

2. Use of Bank Loans

On March 16th 2010, Pfleiderer Grajewo S.A., the parent undertaking and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. ("the Subsidiaries") executed a PLN 700,000,000 credit facility agreement with a bank syndicate. The syndicate 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 extended to the Company under the agreement is split into two tranches:

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

Repayment of the credit facility is secured with a number of instruments, including:

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

Additionally, as a condition attached to the credit facility, after the credit facility is made available an agreement creating a pledge over Pfleiderer Grajewo S.A.'s shareholding in Pfleiderer MDF OOO is to be executed and the scope of security to be created over Pfleiderer MDF OOO's assets is to be agreed.

Under the agreement, the Subsidiaries will be jointly and severally liable for the liabilities assumed by the Company as the borrower.

As a result of the new credit facility agreement, all the existing credit facility agreements concluded by the Company and the Subsidiaries with the Banks were terminated and paid up in full with proceeds from the new credit facility.

Moreover, Pfleiderer OOO of Russia was advanced an investment loan by the European Bank for Reconstruction and Development, repayable in instalments by October 11th 2013. The original loan amount was EUR 35m. The amount outstanding under the loan as at June 30th 2010 was EUR 15.7m.

In addition, Pfleiderer OOO finances its working capital with a bank loan in the form of an overdraft facility at ZAO RaiffeisenBank, which falls due in September 2010. As at June 30th 2010, the amount outstanding under this facility was RUB 51.4 m.

Furthermore, in performance of the agreement with the European Bank for Reconstruction and Development, in Q2 2007, Pfleiderer OOO issued, and the EBRD acquired, new shares worth EUR 7m. The agreement provides for the Bank's equity involvement until June 19th 2012. Thereafter, the shares will be sold to Pfleiderer Grajewo S.A. Pfleiderer Grajewo S.A. has a call option enabling it to repurchase the shares held by the Bank at any time. The Bank has a put option over the shares, whereby it may sell the shares to the Company if the financial agreements executed between the Company, Pfleiderer OOO and the Bank are breached, or if there is a risk that the shares might not be repurchased at the expected date. The annual finance expenses relating to the transaction, resulting from the difference between the purchase price and the selling price of the shares, will be equal to the interest expense on the loan advanced by the Bank.

As at June 30th 2010, the amount of loans contracted by Pfleiderer MDF Sp. z o.o. was PLN 294m. On June 30th 2010, Pfleiderer MDF Sp. z o.o. executed an annex to the agreement, extending the term of the working capital facility until July 31st 2010. On July 30th 2010, a new annex was signed, extending the term of PLN 57m credit facility by three years, until June 30th 2013.

As at June 30th 2010, Pfleiderer Prospan S.A. and Silekol Sp. z o.o. did not have any amounts outstanding under bank loans.

For information on the interest rates applicable to the loans, please refer to Section 11 of the consolidated financial statements.

As at June 30th 2010, the amount outstanding under the bank loans taken out by the Group totalled PLN 1,017m.

As at June 30th 2010, the Group companies did not have any loans other than those described above.

3. Material Related-Party Transactions in H1 2010.

Information on material transactions executed with related parties in H1 2010 is provided in Note 16 in the Supplementary Notes to the Group's annual consolidated financial statements. In 2010, the Group did not conclude any related-party transactions other than on arms' length basis.

4. Management of the Pfleiderer Grajewo Group's Financial Resources in H1 2010.

In H1 2010, Pfleiderer Grajewo S.A. financed its operations mainly with bank loans, supplemented with issues of notes to Pfleiderer Prospan S.A. and Silekol Sp. z o.o.

As at June 30th 2010, the par value of the parent undertaking's debt under notes in issue totalled PLN 263m, while as at the same date its debt under bank loans was PLN 676m. The amount includes a loan from Pfleiderer Service GmbH in the amount of PLN 21m.

Pfleiderer MDF OOO financed the construction of a plant in Russia with loans advanced to it by Pfleiderer Grajewo S.A. and Pfleiderer AG. As at June 30th 2010, the debt outstanding under the loans advanced to Pfleiderer MDF OOO by Pfleiderer AG amounted to PLN 111.7m.

Pfleiderer MDF Sp. z o.o. was advanced a loan by Pfleiderer Service GmbH in the amount of PLN 23.9m. The loan is subordinated to an investment loan taken out at PKO BP S.A., and will be repaid (principal and interest) once the bank loan has been fully repaid.

As at June 30th 2010, the Group's net debt under loans and borrowings amounted to PLN 1.174m.

For detailed information on all liabilities under loans and borrowings as well as contingent liabilities and security as at June 30th 2010, see Note 11 and Note 15, respectively, of the interim condensed financial statements of the Group of August 18th 2010.

5. Financial Instruments

Overview of the Financial Instruments

a) Forward Transactions

Forward transactions included purchase of foreign currency at a predetermined rate. In 2010, Pfleiderer Grajewo S.A. used forward contracts to hedge the currency risk related to business transactions (sales of products, purchases of raw materials, capital expenditure in foreign currencies).

b) Guarantees, Sureties and Security Provided by the Group

As at June 30th 2009, the Group had the following contingent liabilities and provided the following security:

1. Mortgage over Real Estate and Registered Pledge over Plant and Equipment

A mortgage over real estate and a registered pledge over plant and equipment serve as security for a PLN 242,034 thousand investment loan granted to Pfleiderer MDF Sp. z o.o., a member of the Pfleiderer Group, by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose loan contracted to finance the construction of a new MDF board production plant in Grajewo. The mortgage secures liabilities up to PLN 356,860 thousand. The registered pledge secures liabilities up to PLN 450,000 thousand and has been created over a floating group of assets owned by Pfleiderer MDF Sp. z o.o. (floating charge). The pledge is updated on a quarterly basis to take account of any changes in the company's movable property (plant and equipment, vehicles). As at June 30th 2010, the Group's debt under the investment loan totalled PLN 239,627 thousand.

2. Mortgage over Real Estate Located at ul. Wiórowa, Grajewo

A mortgage of up to PLN 80,000 thousand created over the real estate located at ul. Wiórowa, Grajewo, on which the MDF plant is situated, serves as security for a multi-purpose credit facility for the total amount of PLN 65,000 thousand, granted to Pfleiderer MDF Sp. z o.o., a member of the Pfleiderer Group, by PKO Bank Polski S.A. on August 29th 2007. As at June 30th 2010, the Group's debt under the multi-purpose credit facility totalled PLN 54,271 thousand.

As at June 30th 2010, Pfleiderer Grajewo S.A., the parent undertaking, granted surety in respect of a blank promissory note issued by 3Spare Sp. z o.o. for the benefit of Bank BGŻ, for the amount of up to PLN 35,624 thousand. The maximum amount of the blank promissory note, as specified in the promissory note

declaration, is PLN 35,624 thousand. The abovementioned surety relates to an investment loan advanced by Bank BGŻ S.A. to 3Spare Sp. z o.o.

As at June 30th 2009, 3Spare's debt under the loan advanced by Bank BGŻ S.A. stood at PLN 15,661 thousand.

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

In order to secure the Banks' claims under the credit facility agreement, on March 25th 2010 the Company and the Subsidiaries executed documents and agreements whereby – in particular:

- contractual blanket security mortgages were created over the Company's and the Subsidiaries' real estate on which production facilities are located;
- registered pledges were created over the assets owned by the Company and the Subsidiaries;
- registered and financial pledges were created over amounts credited to bank accounts;
- assignment of rights by way of security was made;
- the Company's interest in joint ownership of plant and equipment intended to be used for the purposes of the MDF project in Russia was assigned by way of security;
- financial and registered pledges were created over the Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o. (the value of the pledged shares in Pfleiderer Prospan S.A. and the pledged shares in Silekol Sp. z o.o., as disclosed in the Company's accounting books, stands at PLN 470,155 thousand and PLN 23,343 thousand, respectively).

The Company holds 2,462,136 ordinary registered shares in Pfleiderer Prospan S.A. with the aggregate par value of PLN 246,213,600, representing 100% of the company's share capital and 100% of the total vote at its General Shareholders Meeting.

The Company holds 22,700 shares in Silekol Sp. z o.o. with the aggregate par value of PLN 22,700,000, representing 50% of the company's share capital and 50% of the total vote at its General Shareholders Meeting.

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

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

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

- contractual blanket security mortgages were created over the Company's and the Subsidiaries' real estate on which production facilities are located;
- registered pledges were created over the assets owned by the Company and the Subsidiaries (pledge over a business);

In addition, in H1 2010, the following agreements were executed to provide security for the benefit of the EBRD with respect to a loan advanced to Pfleiderer OOO pursuant to the agreement of December 27th 2005:

1. On April 30th 2010, an agreement was executed for the establishment of a pledge for the benefit of the EBRD over movable assets owned by Pfleiderer OOO, a subsidiary of Pfleiderer Grajewo S.A.

2. On April 29th 2010, a mortgage was established for the benefit of the EBRD over real estate owned by Pfleiderer OOO, a subsidiary of Pfleiderer Grajewo S.A., on which a production facility is located. The mortgage was established pursuant to a mortgage agreement of April 26th 2010.
3. On April 30th 2010, a pledge established for the benefit of the EBRD over the equity interest held by the Company in Pfleiderer OOO was registered. 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 Shareholders Meeting. The pledge was established pursuant to a pledge agreement of April 26th 2010.

Financial Risks Related to the Company's Operations

a) Objectives and Methods of Financial Risk Management Adopted by the Pfleiderer Grajewo Group Companies

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

- credit risk
- currency risk
- liquidity risk.

The objective behind credit risk management is to reduce the Company's losses which may follow from customers' insolvency. This risk is mitigated through insurance of receivables and non-recourse factoring.

The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position from the point of view of cash flows 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 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

Transactions which expose the Pfleiderer Grajewo Group companies to credit risk concern trade receivables. The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group maintains a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and recourse factoring. In 2010, approx. 85% of the Group's trade receivables were secured in this way. In the event of insolvency of customers who have insurance coverage, the compensation is paid by the insurer. Each customer of the Company has a trade credit limit (usually it corresponds to the insurance limit).

c) Interest Rate Risk

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

d) Currency Risk

As at the date of these financial statements, currency risk under foreign-currency loans is borne only by Pfleiderer OOO of Russia (in connection with a euro-denominated loan) and by Pfleiderer MDF OOO (in connection with euro-denominated intra-group loans). Pfleiderer Grajewo S.A. is also exposed to the EUR/PLN currency risk, in connection with a EUR 5m loan received from Pfleiderer Germany. However, this position is offset with a long EUR/PLN position in that company, resulting from the excess of exports over imports, and therefore the currency risk is in this case largely eliminated. The other companies are not subject to currency

risk under foreign-currency loans.

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

Furthermore, Pfleiderer Grajewo S.A. is exposed to currency risk resulting from RUB denominated loans extended to Pfleiderer OOO and Pfleiderer MDF OOO. Currently, the Company does not hedge these positions.

e) Price Risk

Given the nature of their production business and the standard market practice, the Group companies do not hedge against changes in prices of raw materials and products on commodity markets. Selling prices of products are flexible and may change depending on, for instance, changes in prices of raw materials.

f) Risk of Material Cash-Flow Disruptions

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

g) Financial Liquidity Risk

As at June 30th 2010, the Pfleiderer Grajewo Group had debt under loans in the amount of PLN 1,017m; concurrently, it had unused credit facilities (mostly long-term credit limits) of PLN 83m. In addition, the Group holds cash in the amount of PLN 59m.

On March 16th 2010, the Group executed a PLN 700,000 thousand credit facility agreement with a bank syndicate. Pursuant to the agreement, on March 31st 2010 the Group repaid PLN 582,483 thousand of the bank loans disclosed as at the reporting date. While the new financing will drive up finance expenses in 2010 and in subsequent years, the financial covenants it includes are much less stringent and it will provide the Pfleiderer Grajewo Group with liquidity over the next four years. The new credit facility agreement provides for a variable bank margin linked to the ratio of net financial debt to EBITDA.

The availability of the credit facilities depends on meeting the ratios set by the banks, based on consolidated financial data. The principal ratios are:

- financial debt to EBITDA,
- total equity to total assets,
- current assets to current liabilities,
- debt-service coverage ratio,
- EBITDA for 2010.

The Group analyses the ratios on an ongoing basis and, based on its short-term plans, analyses the risk of failure to meet the ratios.

The level of and exposure to currency, credit and interest rate risks have not changed significantly from their respective values disclosed in the Group's most recent annual report (for 2009).

6. 2010 Performance Forecast

Given the current economic climate, the Group will refrain from publishing its forecast for 2010 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

7. Court Proceedings

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

8. Events Subsequent to the Balance-Sheet Date

On June 30th 2010, Pfleiderer MDF Sp. z o.o. signed an annex under which the term of a working capital facility was extended until July 31st 2010. Subsequently, on July 30th 2010, another annex was signed providing for an extension of PLN 57m credit facility by three years, that is until June 30th 2013.

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

Grajewo, August 18th 2010

Wojciech Gątkiewicz
President of the Management Board

Johann Bitzi
Vice-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*