

PFLEIDERER GRAJEWO GROUP

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 1ST–JUNE 30TH 2010**

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PFLEIDERER GRAJEWÓ GROUP

(all figures in PLN '000)

MANAGEMENT BOARD'S STATEMENT

In compliance with the requirements laid down in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and on conditions for recognising as equivalent information required by the laws of a non-member state, dated February 19th 2009 (Dz. U. of 2009, No. 33, item 259), the Management Board of Pfeiderer Grajewo S.A., the parent undertaking, represents that to the best of its knowledge the interim condensed consolidated financial statements and the interim condensed separate financial statements for the period January 1st–June 30th 2010 and the comparative data, have been prepared in compliance with the applicable accounting standards and give a fair and clear view of the assets, financial standing and financial results of the Pfeiderer Grajewo Group and Pfeiderer Grajewo S.A., respectively, and that the interim Directors' Report on the operations of the Pfeiderer Grajewo Group and the interim Directors' Report on the operations of Pfeiderer Grajewo S.A. gives a fair view of the development, achievements and standing of the Group and Pfeiderer Grajewo S.A., respectively, including a description of the key risks and threats.

The Management Board of Pfeiderer Grajewo S.A., the parent undertaking, represents that the qualified auditor of financial statements who reviewed the interim condensed consolidated financial statements of the Pfeiderer Grajewo Group and the interim condensed separate financial statements of Pfeiderer Grajewo S.A. was appointed in compliance with applicable laws, and that both the auditing firm and the qualified auditors who performed the review meet the conditions required to issue an impartial and independent review report on the interim condensed consolidated financial statements and the interim condensed separate financial statements, in accordance with the applicable laws and professional standards.

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

Grajewo, August 18th 2010

PFLEIDERER GRAJEWO GROUP

(all figures in PLN '000)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Statement of Comprehensive Income for the Period January 1st– June 30th 2010

	Note	Jan 1 – Jun 30 2010	Jan 1 – Jun 30 2009	Apr 1 – Jun 30 2010	Apr 1 – Jun 30 2009
		Continuing operations unaudited	Continuing operations unaudited	Continuing operations unaudited	Continuing operations unaudited
Sales revenue		620,604	558,690	314,774	263,719
Cost of sales		(520,414)	(468,489)	(256,205)	(223,533)
Gross profit		100,190	90,201	58,569	40,186
Other income	4	4,423	22,890	(1,623)	3,910
Selling costs		(39,693)	(33,199)	(19,750)	(16,582)
General and administrative expenses		(56,971)	(61,444)	(27,076)	(29,877)
Other expenses		(9,954)	(8,944)	(2,849)	(5,658)
Operating profit/loss		(2,005)	9,504	10,517	(8,021)
Finance income		27,208	6,364	11,023	8,880
Finance expenses		(43,366)	(54,324)	(23,082)	(22,707)
Net finance expenses	4	(16,158)	(47,960)	(12,059)	(13,827)
Pre-tax loss		(18,163)	(38,456)	(1,542)	(21,848)
Income tax	5	786	(368)	(1,591)	(2,335)
Net loss		(17,377)	(38,824)	(3,133)	(24,183)
Other comprehensive income					
Exchange differences on translating subsidiary undertakings		22,387	2,957	17,600	(5,661)
Exchange differences on net investments in subsidiary undertakings		30,298	(6,192)	25,252	(6,095)
Effective portion of loss on fair-value measurement of hedging instruments, including corporate income tax		0	(5,244)	0	9,049
Total other comprehensive income for period		52,685	(8,479)	42,852	(2,707)
Total comprehensive income for period		35,308	(47,303)	39,719	(26,890)
Net loss attributable to:					
Owners of the parent		(10,476)	(28,081)	933	(14,898)
Non-controlling interests		(6,901)	(10,743)	(4,066)	(9,285)
Net loss		(17,377)	(38,824)	(3,133)	(24,183)
Comprehensive income for period attributable to:					
Owners of the parent		36,422	(37,211)	38,998	(16,085)
Non-controlling interests		(1,114)	(10,092)	721	(10,805)
Comprehensive income for period		35,308	(47,303)	39,719	(26,890)
Basic earnings/(loss) per share (PLN)		(0.21)	(0.57)	0.02	(0.30)
Diluted earnings/(loss) per share (PLN)		(0.21)	(0.57)	0.02	(0.30)

PFLEIDERER GRAJEWO GROUP

(all figures in PLN '000)

Interim Condensed Consolidated Statement of Changes in Equity for the Period January 1st–June 30th 2010

	Share capital	Share premium account	Statutory reserve funds	Exchange differences on translating subordinated undertakings	Exchange differences on net investments in subsidiary undertakings	Retained earnings	Total	Non-controlling interests	Total
Balance as at Jan 1 2010	16,376	289,806	133,518	(17,659)	(19,484)	37,372	439,929	77,384	517,313
Comprehensive income for period									
Net loss	0	0	0	0	0	(10,476)	(10,476)	(6,901)	(17,377)
Other comprehensive income									
Exchange differences on translating subordinated undertakings	0	0	0	16,600	0	0	16,600	5,787	22,387
Exchange differences on net investments in subsidiary undertakings	0	0	0	0	30,298	0	30,298	0	30,298
Total other comprehensive income	0	0	0	16,600	30,298	0	46,898	5,787	52,685
Total comprehensive income for period	0	0	0	16,600	30,298	(10,476)	36,422	(1,114)	35,308
Transactions with owners disclosed in equity									
Transfer of 2009 net profit to statutory reserve funds	0	0	20,211	0	0	(20,211)	0	0	0
Total transactions with owners disclosed in equity	0	0	20,211	0	0	(20,211)	0	0	0
Balance as at Jun 30 2010 (unaudited)	16,376	289,806	153,729	(1,059)	10,814	6,685	476,351	76,270	552,621

PFLEIDERER GRAJEWO GROUP

(all figures in PLN '000)

	Share capital	Share premium account	Statutory reserve funds	Exchange differences on translating subordinated undertakings	Exchange differences on net investments in subsidiary undertakings	Cash flow hedges	Retained earnings	Total	Non-controlling interests	Total
Balance as at Jan 1 2009	16,376	289,806	89,174	(8,434)	636	0	121,934	509,492	109,484	618,976
Comprehensive income for period										
Net loss	0	0	0	0	0	0	(28,081)	(28,081)	(10,743)	(38,824)
Other comprehensive income										
Exchange differences on translating subordinated undertakings	0	0	0	2,306	0	0	0	2,306	651	2,957
Exchange differences on net investments in subsidiary undertakings	0	0	0	0	(6,192)	0	0	(6,192)	0	(6,192)
Effective portion of loss on fair-value measurement of hedging instruments, including corporate income tax	0	0	0	0	0	(5,244)	0	(5,244)	0	(5,244)
Total other comprehensive income	0	0	0	2,306	(6,192)	(5,244)	0	(9,130)	651	(8,479)
Total comprehensive income for period	0	0	0	2,306	(6,192)	(5,244)	(28,081)	(37,211)	(10,092)	(47,303)
Transactions with owners disclosed in equity										
Transfer of 2008 net profit to statutory reserve funds	0	0	44,344	0	0	0	(44,344)	0	0	0
Total transactions with owners disclosed in equity	0	0	44,344	0	0	0	(44,344)	0	0	0
Balance as at Jun 30 2009 (unaudited)	16,376	289,806	133,518	(6,128)	(5,556)	(5,244)	49,509	472,281	99,392	571,673

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(all figures in PLN '000)

Interim Condensed Consolidated Statement of Financial Position as at June 30th 2010

	Note	Jun 30 2010 unaudited	Dec 31 2009
Assets			
Property, plant and equipment	6	1,212,894	1,170,923
Intangible assets		5,662	6,945
Goodwill		107,829	107,829
Investments in related undertakings		52	52
Other non-current financial assets		12	16
Deferred tax asset		9,582	8,110
Prepayments for property, plant and equipment		236,645	235,711
Government assistance receivable	7	16,572	8,579
Non-current assets		1,589,248	1,538,165
Inventories	8	176,574	165,863
Income tax receivable		321	2,097
Trade and other receivables	9	170,146	135,766
Other current financial assets		9	141
Cash and cash equivalents		58,671	30,864
Current assets		405,721	334,731
Total assets		1,994,969	1,872,896
Equity and liabilities			
Share capital		16,376	16,376
Share premium account		289,806	289,806
Statutory reserve funds		153,729	133,518
Exchange differences on translating subordinated undertakings		(1,059)	(17,659)
Exchange differences on net investments in subsidiary undertakings		10,814	(19,484)
Retained earnings		6,685	37,372
Equity attributable to owners the parent	10	476,351	439,929
Non-controlling interests		76,270	77,384
Total equity		552,621	517,313
Liabilities			
Loans and borrowings	11	1,064,866	417,017
Non-current portion of finance lease liability		137	187
Employee benefits payable		5,203	5,203
Provisions		2,628	2,552
Deferred tax liability		10,504	5,444
Deferred income under government assistance		27,263	21,955
Non-current liabilities		1,110,601	452,358
Loans and borrowings	11	109,118	664,630
Current portion of finance lease liability		212	265
Income tax payable		1,875	186
Trade and other payables	12	202,004	219,387
Employee benefits payable		16,104	16,881
Deferred income under government assistance		2,434	1,876
Current liabilities		331,747	903,225
Total liabilities		1,442,348	1,355,583
Total equity and liabilities		1,994,969	1,872,896

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(all figures in PLN '000)

Interim Condensed Consolidated Statement of Cash Flows for the Period January 1st–June 30th 2010

	Jan 1 – Jun 30 2010 unaudited	Jan 1 – Jun 30 2009 unaudited
Cash flows from operating activities		
Net loss	(17,377)	(38,824)
Adjustments	17,703	71,056
Depreciation and amortisation	60,020	58,814
Foreign exchange (gains)/losses	(18,605)	19,187
Interest for period	41,006	25,909
(Gain)/loss on disposal of intangible assets and property, plant and equipment	447	(15)
Income tax expense	(786)	368
Deferred income tax charged to equity	7,107	0
Change in trade and other receivables	(34,380)	42,000
Change in inventories	(10,711)	11,160
Change in trade and other payables	(16,829)	(48,362)
Change in employee benefits payable	(777)	(3,938)
Change in provisions	76	73
Change resulting from government assistance	(2,127)	(1,847)
Change resulting from valuation of forward contracts	0	(22,135)
Change in currency-translation differences on consolidation	(6,738)	(10,158)
Cash provided by/(used in) operating activities	326	32,232
Interest received	19	44
Income tax (paid)/ received	1448	(6,942)
Net cash provided by/(used in) operating activities	1,793	25,334
Cash flows from investing activities		
Sale of non-current assets	482	1,441
Other cash provided by financial assets	136	18
Loss on forward contracts	0	(13,963)
Acquisition of intangible assets and property, plant and equipment	(17,037)	(102,064)
Net cash provided by/(used in) investing activities	(16,419)	(114,568)
Cash flows from financing activities		
Repayment of loans and borrowings	(598,663)	(72,429)
Increase in loans and borrowings	674,997	173,657
Interest paid	(33,901)	(24,537)
Net cash provided by/(used in) financing activities	42,433	76,691
Total net cash flow	27,807	(12,543)
Change in cash	27,807	(12,543)
Cash at beginning of period	30,864	13,939
Cash at end of period	58,671	1,396

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Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

1. Overview

The parent undertaking of the Pfleiderer Grajewo Group is a publicly traded joint-stock company registered in 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 Company's Management Board received the decision of the District Court of Białystok on entering the Company's new name, Pfleiderer Grajewo S.A., in the National Court Register.

The Company's registered office is situated at ul. Wiórowa 1, Grajewo, Poland.

In accordance with the Polish Classification of Business Activities, Pfleiderer Grajewo S.A. is registered under No. 1621 Z.

These interim condensed consolidated financial statements of the Pfleiderer Grajewo Group for the period January 1st – June 30th 2010 were approved by the Management Board of the parent undertaking on August 18th 2010.

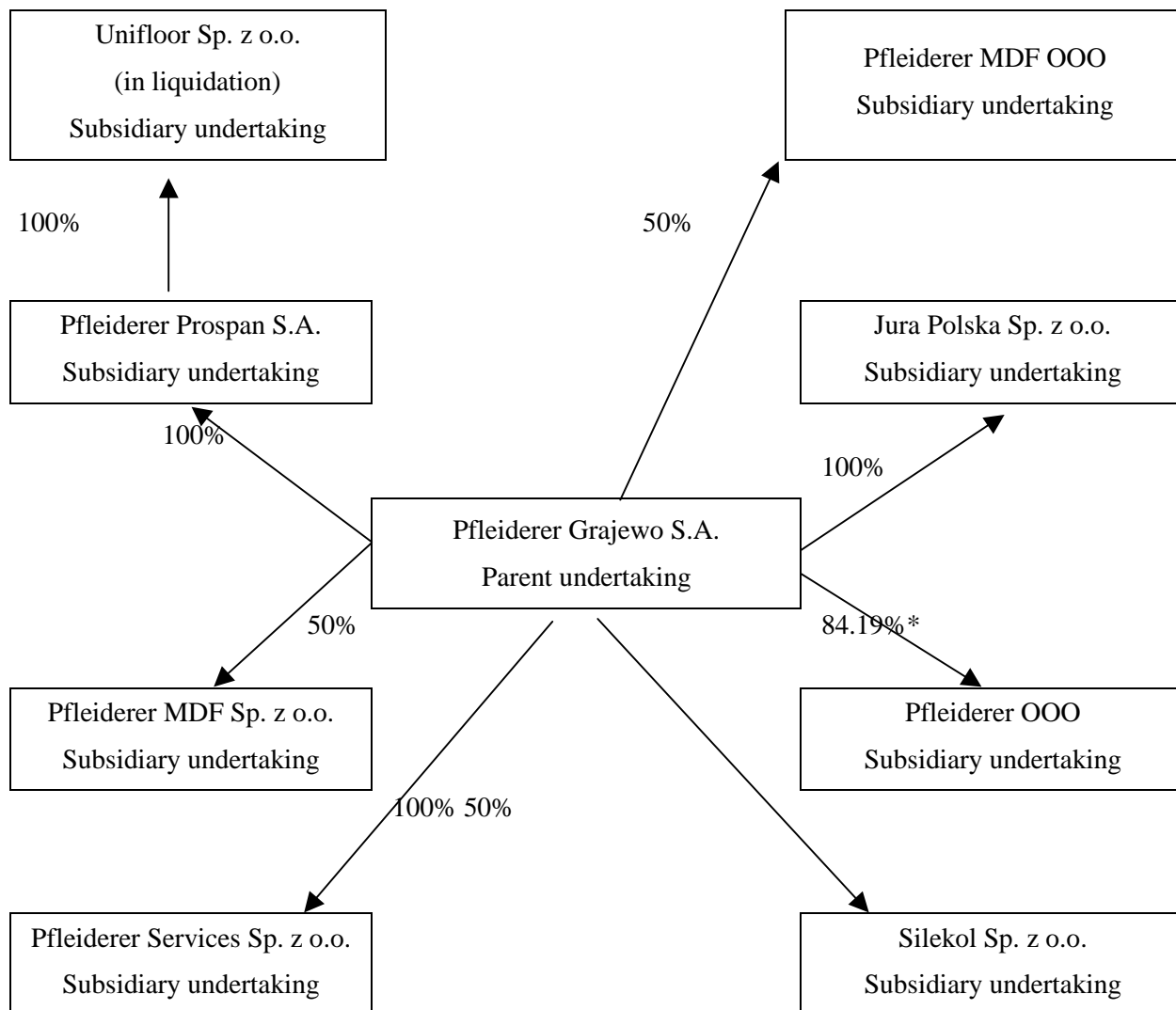
2. Structure of the Group

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

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

Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

Structure of the Group as at June 30th 2010:



Pfleiderer Grajewo S.A. holds 50% of shares and votes in its subsidiary undertakings Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o. and Pfleiderer MDF OOO, but it still 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.

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Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

Grajewo S.A. holds 100% of shares.

Changes in the Group's Structure in the Reporting Period

There were no material changes in the structure of the Group in the reporting period.

Subsidiary Undertakings Comprising the Pfeiderer Grajewo Group

Pfleiderer Prospan S.A. – a joint-stock company entered in the commercial register maintained by the District Court of Kalisz under No. RHB 1754 on September 23rd 1997 as Zakłady Płyt Wiórowych Prospan S.A. On September 17th 2001, the company was registered with the District Court of Łódź-Śródmieście in Łódź, XX Division of the National Court Register under entry No. KRS: 0000042082.

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

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

Uniform registration number:	1035301200164
Tax Identification Number:	5310011273
Registered office	106 Tsentralnaya St, Novgorod Region 173502, Russia

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

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

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

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

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

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

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

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Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

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

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

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

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

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

The scope of business of Pfleiderer Grajewo S.A., the parent undertaking, includes:

- manufacture and veneering of wood and wood-based products
- impregnation of paper
- trade at home and abroad

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

Pfleiderer Prospan S.A.

- manufacture of melamine-faced and raw chipboards and other wood and wood-based products
- impregnation of paper
- trade at home and abroad
- production and distribution of heat

Pfleiderer OOO

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

Pfleiderer MDF OOO

Pfleiderer MDF OOO is a vehicle established to implement the project consisting in the construction of an MDF/HDF board production plant in Novgorod.

Silekol Sp. z o.o.

Silekol Sp. z o.o. guarantees regular supplies of high quality glues for the production of chipboard to the parent undertaking and the subsidiary undertakings.

- manufacture of dyes and pigments
- manufacture of other organic and inorganic chemicals

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Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

- manufacture of paints and varnishes
- manufacture of glues and gelatines

Pfleiderer MDF Sp. z o.o.

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

Jura Polska Sp. z o.o.

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

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

Unifloor Sp. z o.o. is currently in the process of liquidation.

Pfleiderer Services Sp. z o.o.

As at December 31st 2007, the company suspended its operations.

3. Composition of the Management Board and the Supervisory Board of the Parent Undertaking and Changes in the Reporting Period

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 Greave | - 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 Greave and Mr Jan Woźniak.

4. Periods Covered by the Interim Condensed Consolidated Financial Statements and the

PFLEIDERER GRAJEWÓ GROUP

Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

Comparative Data

These interim condensed consolidated financial statements have been prepared for the period January 1st – June 30th 2010, while the comparative financial data and notes relate to the period January 1st – June 30th 2009.

These financial statements comprise the data of Pfeiderer Grajewo S.A., the parent undertaking, and of its subsidiary undertakings: Pfeiderer Prospan S.A., Pfeiderer OOO, Pfeiderer MDF OOO, Silekol Sp. z o.o., Pfeiderer MDF Sp. z o.o., Jura Polska Sp. z o.o. and Unifloor Sp. z o.o.

5. Basis of Preparation

a) Compliance Statement

These interim condensed consolidated statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

These financial statements do not contain all the information required for annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements of the Group for the financial year ended December 31st 2009.

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

The Group has not used the option of early application of the new Standards and Interpretations which have already been published and endorsed by the European Union but which are to come into force in the periods beginning after the balance-sheet date.

Furthermore, as at the balance-sheet date the Group had not completed the work on estimating the impact of the new Standards and Interpretations which are to become effective in the periods beginning after the balance-sheet date on the consolidated financial statements for the period in respect of which those Standards and Interpretations will be applied for the first time.

PFLEIDERER GRAJEWO GROUP

Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

Standards and Interpretations endorsed by the EU

Standards and Interpretations endorsed by the EU	Anticipated change in accounting policies	Effect on financial statements (if any)	Effective for periods beginning on or after:
Amendment to IFRS 1 – <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	The amendment concerns exemption from comparative disclosures under the amended IFRS 7 by first-time adopters of IFRS. It applies if the first financial statements were prepared for a period beginning before January 1st 2010.	Changes does not apply to the Group's financial statements	July 1st 2010 Under Commission Regulation (EC) No. 574/2010, each company should apply the revised IFRS 1 and IFRS 7 no later than from the commencement date of its first financial year starting after June 30th 2010.
Revised IAS 24 <i>Related Party Disclosures</i>	<p>The revised Standard introduces exemption concerning the disclosure of related-party transactions, balances, including contingent liabilities towards (a) the government which controls or jointly controls the reporting undertaking or exerts significant influence on the reporting undertaking; and (b) another undertaking which is a related party because the same government controls or jointly controls the reporting undertaking and the other undertaking or exerts significant influence on them. The revised Standard requires the undertakings opting for this exemption to make specific disclosures.</p> <p>The revised Standard also broadens the meaning of "a related party" to include additional entities, such as associated undertakings of the controlling shareholder or undertakings controlled or jointly controlled by a member(s) of the key management personnel.</p>	Revised IAS 24 does not apply to the Group's financial statements because the Group is not controlled by any government. Nor is it anticipated that under the revised definition of "a related party" new relations will appear which would be required to be disclosed in the financial statements.	January 1st 2011 Under Commission Regulation (EC) No. 632/2010, each company should apply the revised standard no later than from the commencement date of its first financial year starting after December 31st 2010.
Amendment to IAS 32 <i>Classification of Rights Issues</i>	Under the amendment, rights, options or warrants issued to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer of such rights, options or	Amendment to IAS 32 does not apply to the Group's financial statements because the Group has not issued such instruments yet.	February 1st 2010 Under Commission Regulation (EC) No. 1293/2009, each company should apply the

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Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st–June 30th 2010

(all figures in PLN '000)

	warrants is made <i>pro rata</i> to all existing owners of the same class of the entity's own non-derivative equity instruments.		amendments no later than from the commencement date of its first financial year starting after January 31st 2010.
Amendment to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i>	Under the amended IFRIC 14, a prepayment for a pension plan with a minimum funding requirement should be recognised as an asset because, as a result of the prepayment, the undertaking gains the economic benefit available as a reduction in future contributions in the periods in which payments of minimum funding would have been required if no prepayment had been made.	Amendment to IFRIC 14 does not apply to the Group's financial statements because the Group does not operate a pension plan with a minimum funding requirement.	January 1st 2011 Under Commission Regulation (EC) No. 633/2010, each company should apply the amendments no later than from the commencement date of its first financial year starting after December 31st 2010.

PFLEIDERER GRAJEWO GROUP

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Standards and Interpretations pending endorsement by the EU

Standards and Interpretations awaiting endorsement by the EU	Anticipated change in accounting policies	Effect on financial statements (if any)	Effective for periods beginning on or after:
<i>Amendments to International Financial Reporting Standards 2010</i>	Amendments to International Financial Reporting Standards comprise 11 amendments to 6 Standards and one interpretation.	The effect of the amended Standards on the financial statements is unknown.	January 1st 2011, except amended IFRS 3 <i>Business combinations</i> – Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the amended Standard, Measurement of non-controlling interests, Un-replaced and voluntarily replaced share-based payment plans, and the amendment to IAS 27 <i>Consolidated and Separate Financial Statement</i> – Transitional provisions concerning the amendments to IAS 21, IAS 28 and IAS 31, resulting from amending IAS 27 – where the effective date is July 1st 2010.
IFRS 9 <i>Financial Instruments</i>	The new Standard replaces guidelines contained in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , concerning the classification and measurement of financial assets. The new Standard eliminates certain categories provided for in IAS 39, namely: held to maturity, available for sale, and loans and receivables.	It is anticipated that on its first-time adoption the Standard will have a material effect on the financial statements because it will have to be applied retrospectively. However, prior to the first-time adoption, the Group is not able to perform an analysis of the impact of the new Standard.	January 1st 2013

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Standards and Interpretations awaiting endorsement by the EU	Anticipated change in accounting policies	Effect on financial statements (if any)	Effective for periods beginning on or after:
	<p>Under the new Standard, on initial recognition financial assets will be classified into one of the following two categories:</p> <ul style="list-style-type: none"> • financial assets measured at amortised cost; or • financial assets measured at fair value. <p>A financial asset that meets the following two conditions can be measured at amortised cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.</p> <p>Gains and losses on the measurement of financial assets at fair value are recognised in the current period's profit or loss, unless the investment in an equity instrument is not held for trading. Under IFRS 9, if an equity investment is not held for trading, an entity can make an irrevocable election on initial recognition to measure it at fair value through other comprehensive income. Such election may be made with respect to each such instrument separately. Amounts recognised under other comprehensive income may not be reclassified to profit and loss account in future periods.</p>		
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	<p>Pursuant to IFRIC 19, equity instruments issued for a creditor to settle or partially settle a financial liability (in a debt for equity swap) are regarded as "consideration" within the meaning of IAS 39.41.</p> <p>On initial recognition, such equity instruments should be measured at fair value, unless it cannot be reliably determined, in which case the valuation of a given instrument should reflect the fair value of the liability or the part of the liability which was extinguished with such instrument. The difference between</p>	<p>In the current year, the Group has not issued equity instruments to settle financial liabilities. Accordingly, the Interpretation will have no material effect on the financial statement for the year ending December 31st 2010. Moreover, as the interpretation applies exclusively to future transactions, if any, the determination of its effect on the financial statements is currently infeasible.</p>	July 1st 2010

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Standards and Interpretations awaiting endorsement by the EU	Anticipated change in accounting policies	Effect on financial statements (if any)	Effective for periods beginning on or after:
	the carrying amount of the extinguished financial liability or part of the financial liability and the initial valuation of the equity instrument should be recognised in current period's profit or loss.		

PFLEIDERER GRAJEWO GROUP

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(all figures in PLN '000)

b) Basis of Measurement

These interim condensed consolidated financial statements were prepared in compliance with the historical cost convention, with the exception of financial derivatives which were measured at fair value.

c) Functional and Presentation Currency

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

The functional currency of the Polish companies of the Group is the Polish złoty (PLN), and the functional currency of foreign subsidiary undertakings Pfleiderer OOO and Pfleiderer MDF OOO is the Russian rouble (RUB).

d) Estimates and Judgments

The preparation of financial statements in accordance with the EU IFRS requires the Management Board to make estimates and assumptions affecting the amounts disclosed in the financial statements and the notes to the financial statements. While the assumptions and estimates are based on the Management Board's best knowledge of current activities, operations and events, the actual results may differ from the projections.

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

6. Adopted Accounting Policies

These financial statements have been drawn up in accordance with the same accounting policies as those applied to prepare the most recent annual consolidated financial statements of the Group.

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Supplementary Notes to the Interim Condensed Consolidated Financial Statements for the Period January 1st – June 30th 2010

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1. Business Segments

The Group comprises the following reporting segments to which the Group undertakings are classified:

Operating Segments	Undertakings comprising the segment	Business description
Panel Polska	Pfleiderer Grajewo S.A.	Production of chipboard
	Jura Sp. z o.o.	Provision of transport services – mainly for Panel Polska
	Pfleiderer Prospan s.A.	Production of chipboard
	Unifloor Sp. z o.o.	Production of laminate flooring
MDF Grajewo	Pfleiderer MDF Sp. z o.o.	Manufacture of thin MDF board
Silekol	Silekol Sp. z o.o.	Production of resins and adhesives – mainly for the Group's purposes
Russia	Pfleiderer OOO	Production of chipboard
	Pfleiderer MDFOOO	Investment in progress (production of chipboard)

The table below presents the Operating Segments' revenue for the period January 1st – June 30th 2010.

	Jan 1-Jun 30 2010	Jan 1-Jun 30 2010	Jan 1-Jun 30 2010		Jan 1-Jun 30 2009	Jan 1-Jun 30 2009	Jan 1-Jun 30 2009
Operating Segment	Total revenue	Revenue generated within the Group	Revenue generated outside the Group	Operating Segment	Total revenue	Revenue generated within the Group	Revenue generated outside the Group
Panel Polska	450,747	68,737	382,010	Panel Polska	400,745	45,510	355,235
MDF Grajewo	103,874	22,254	81,620	MDF Grajewo	70,056	12,396	57,660
Silekol	106,465	58,126	48,339	Silekol	100,168	42,582	57,586
Russia	108,635		108,635	Russia	88,209		88,209
Total			620,604	Total			558,690

The table below shows a reconciliation of pre-tax profits/(losses) of the Operating Segments for the period January 1st – June 30th 2010.

	Jan 1 – Jun 30 2010	Jan 1 – Jun 30 2009
Operating Segment	Pre-tax profit/(loss)	Pre-tax profit/(loss)
Panel Polska	38,617	9,401
MDF Grajewo	(9,278)	(15,531)
Silekol	(1,872)	(6,982)
Rosja	(7,482)	(35,240)
Total profit generated by segments	19,985	(48,352)
Inter-segment eliminations	(38,148)	9,896
Consolidated pre-tax profit/(loss)	(18,163)	(38,456)

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2. Seasonality

Chipboard sales are subject to seasonal changes, in particular related to the seasonal nature of the construction cycle. Sales peak in the second half of a calendar year.

3. Goodwill

On May 31st 2007, parent undertaking Pfeleiderer Grajewo S.A. and the State Treasury concluded a sale agreement under which the parent undertaking acquired 1,062,500 ordinary registered shares in subsidiary undertaking Pfeleiderer Prospan S.A. of Wieruszów.

By the end of 2007, the parent undertaking acquired the remaining shares in Pfeleiderer Prospan S.A. from the minority shareholders. Following the acquisitions the parent undertaking holds 100% of shares in Pfeleiderer Prospan S.A. The aggregate acquisition cost of the shares was PLN 330,002 thousand. Then, in H1 2008, goodwill rose by PLN 108 thousand in connection with the revaluation of the acquisition cost to account for the additional cost of advisory services.

In line with the adopted accounting policies, the excess of the cost of acquisition of the minority interests over the acquired minority interests in the carrying value of Pfeleiderer Prospan S.A.'s net assets, in the amount of PLN 107,829 thousand, is carried as goodwill.

In H1 2010, goodwill did not change.

4. Finance Income and Expenses

	Jan 1- Jun 30 2010	Jan 1- Jun 30 2009	Apr 1- Jun 30 2010	Apr 1- Jun 30 2009
Finance income				
Interest income	258	1,469	129	1,139
Foreign exchange gains	26,950	0	10,894	2,846
Income from forward contracts	0	4,895	0	4,895
	<u>27,208</u>	<u>6,364</u>	<u>11,023</u>	<u>8,880</u>
Finance expenses				
Interest expenses	41,265	27,379	21,449	14,371
Net foreign exchange losses	0	4,834	0	0
Loss on forward contracts	0	19,247	0	6,740
Other finance expenses	2,101	2,864	1,633	1,596
	<u>43,366</u>	<u>54,324</u>	<u>23,082</u>	<u>22,707</u>
Net finance expenses	(16,158)	(47,960)	(12,059)	(13,827)

5. Income Tax

The effective tax rate for H1 2010 stood at (4%), while as at the end of 2009 it was (2%). The income tax was calculated using the weighted average tax rate projected for the financial year. The low tax rate results from permanent tax differences, relating primarily to the cost of interest on deposits connected

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with the investment in the MDF board production plant in Russia and the cost of financing in Russia, as well as the cost of intangible services and the State Fund for the Rehabilitation of the Disabled.

6. Property, Plant and Equipment

In H1 2010, the Group purchased property, plant and equipment for the total of PLN 17,037 thousand. The capital expenditure incurred in 2010 was chiefly related to the replacement of hot platens in the main press of the raw board production line at Pfleiderer OOO, completion of projects commenced in 2009 as well as other minor operational projects.

In H1 2010, the Group also disposed of property, plant and equipment with a gross value of PLN 1,243 thousand, and recognised depreciation of PLN 317 thousand.

7. Government Assistance Receivable and Deferred Income under Government Assistance

In H1 2010, the Group recognised amortisation of government assistance of PLN 2,127 thousand under "Other operating income". The Group carried out an analysis of government assistance receivable, which confirmed that its value changed relative to the most recent annual financial statements and amounts to PLN 16,572 thousand (PLN 8,579 as at December 31st 2009). The change in the amount of government assistance receivable followed from an adjustment to the estimated cash flows of the Group in future years. The Management Board adopted budget assumptions, which serve as a basis for the estimation of the government assistance amount based on historical results and expectations as to the market developments.

8. Inventories

Inventories are disclosed in the balance sheet on a net basis, i.e. reduced by impairment losses of PLN 6,932 thousand (PLN 7,993 thousand as at December 31st 2009).

9. Trade Receivables

	<u>Jun 30 2010</u>	<u>Dec 31 2009</u>
Trade receivables and prepayments	110,156	94,368
Trade receivables and prepayments – related undertakings	5,454	700
Current prepayments and accrued income	15,231	4,093
Current VAT receivables	35,196	29,816
Other receivables	4,109	6,789
Total	<u>170,146</u>	<u>135,766</u>

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10. Equity

In thousands of shares

	<u>Jun 30 2010</u>	<u>Dec 31 2009</u>
Number of shares at beginning of period	49,624	49,624
Number of shares at end of period (fully paid up)	49,624	49,624
Par value per 1 share	<u>PLN 0.33</u>	<u>PLN 0.33</u>

All shares issued by the Group are ordinary shares. Holders of ordinary shares are entitled to dividend. Each share carries the right to one vote at the Company's General Shareholders Meeting. All the shares carry equal rights to a share of the Company's assets in the event of their distribution.

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.

Dywidends

The Group did not pay out dividend for 2009.

11. Liabilities under Loans and Borrowings

	<u>Jun 30 2010</u>	<u>Dec 31 2009</u>
Non-current portion		
Overdraft facility repayable in over 12 months from the balance-sheet date	99,327	0
Non-current portion of interest-bearing bank loans and borrowings	808,844	320,308
Loans from related undertakings	156,695	96,709
Total	<u>1,064,866</u>	<u>417,017</u>
Current portion		
Overdraft facility repayable in less than 12 months from the balance-sheet date	29,855	288,890
Current portion of interest-bearing bank loans and borrowings	79,263	375,740
Total	<u>109,118</u>	<u>664,630</u>

Bank Loans

The Group has credit facilities available in the form of overdraft facility and short- and long-term portion of bank loans. The balance of liabilities under bank loans as at June 30th 2010 was PLN 1,017,289 thousand (PLN 984,938 thousand as at December 31st 2009).

All credit facilities used by the Group bear interest at variable rates equal to WIBOR, EURIBOR or MOSPRIME plus margin.

Terms and repayment schedules of the bank loans as at June 30th 2010:

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Lender	Currency	Interest rate	Maturity date	Security	As at Jun 30 2010	
					Current portion	Non-current portion
Syndicate of 5 banks Tranche B	PLN	WIBOR+margin	Mar 16 2012	mortgages, pledges	0	99,327
Syndicate of 5 banks Tranche A	PLN	WIBOR+margin	Dec 30 2013	mortgages, pledges	16,889	503,597
PKO BP S.A.	PLN	WIBOR+margin	Jul 31 2010	mortgage, registered pledge, assignment	54,271	0
PKO BP S.A.	PLN	WIBOR+margin	Jul 15 2016	registered pledge, assignment	6,500	233,127
Raiffeisen Bank Russia	RUB	MOSPRIME+margin	Sep 21 2010	surety	5,584	0
EBRD	EUR	EURIBOR6M+margin	Oct 11 2013	Surety, mortgage, registered pledge, assignment	25,874	37,192
EBRD	EUR	EURIBOR+margin	Jun 19 2012	share in Pfleiderer OOO	0	34,928
Total					109,118	908,171

Terms and repayment schedules of the bank loans as at December 31st 2009:

Lender	Currency	Interest rate	Maturity date	Security	As at Dec 31 2009	
					Current portion	Non-current portion
Bank PEKAO S.A.	PLN	WIBOR+margin	Nov 19 2010	none	120,000	0
BRE Bank S.A.	PLN	WIBOR+margin	Jun 29 2013	none	105,000	0
Bank Zachodni WBK S.A.	PLN	WIBOR+margin	Nov 20 2010	none	32,958	0
Bank Zachodni WBK S.A.	PLN	WIBOR+margin	Feb 5 2012	none	80,000	0
Bank PEKAO S.A.	PLN	WIBOR+margin	Jan 29 2010	none	22,508	0
BGŻ S.A.	PLN	WIBOR+margin	Dec 16 2011	none	89,234	0
Fortis Bank Polska S.A.	PLN	WIBOR+margin	Jan 31 2010	none	118,782	0
BRE Bank S.A.	PLN	WIBOR+margin	Jul 31 2010	none	14,000	0
Bank PEKAO S.A.	PLN	WIBOR+margin	Jul 31 2010	none	3	0
PKO BP S.A.	PLN	WIBOR+margin	Jun 30 2010	mortgage, registered pledge, assignment	56,406	0
PKO BP S.A.	PLN	WIBOR+margin	Jan 15 2016	mortgage, registered pledge, assignment	0	240,034
Raiffeisen Bank Russia	RUB	MOSPRIME+margin	Sep 21 2010	surety	3	0
EBRD	EUR	EURIBOR6M+ margin	Oct 11 2013	surety	25,736	46,319
EBRD	EUR	EURIBOR+margin	Jun 19 2012	share in Pfleiderer OOO	0	33,955
Total					664,630	320,308

On March 16th 2010, Pfleiderer Grajewo S.A., the parent undertaking (“the Company”), 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

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S.A. as the syndication 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.

The repayment deadline for Tranche A is December 30th 2013, while Tranche B is to be repaid in full two years after the execution of the credit facility agreement. Furthermore, under Tranche B bank guarantees and letters of credit may be issued.

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

Repayment of the credit facility is secured by 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 Subsidiaries; the pledge covers 100% of the shares in Pfeiderer 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.

For more detailed information on the security see Note 15 in the supplementary notes to these financial statements.

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

The new credit facility agreement contains financial covenants which require that certain financial ratios should be maintained at a prescribed level.

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

Furthermore, on June 30th 2010, Pfeiderer MDF Sp. z o.o. executed an annex to a working capital facility agreement with PKO Bank Polski S.A., whereby the term of the facility (whose balance as at June 30th 2010 amounted to PLN 54,271 thousand) was extended until July 31st 2010. Then, on July 30th 2010, another annex was signed, extending the term of the facility by three years, until June 30th 2013.

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Also, the subsidiary undertaking Pfeiderer OOO of Russia contracted an investment loan from the EBRD, repayable in instalments until October 11th 2013. As at June 30th 2010, outstanding debt under the loan was EUR 15.7m.

In addition, Pfeiderer 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, Pfeiderer OOO issued, and the EBRD acquired, new shares worth EUR 7m. The agreement provides for the Bank's equity involvement until June 19th 2010. Thereafter, the shares will be sold to Pfeiderer Grajewo S.A. Pfeiderer 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, Pfeiderer 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.

Liabilities under Loans from Related Undertakings

	<u>Jun 30 2010</u>	<u>Dec 31 2009</u>
Loans from related undertakings	156,695	96,709
	<u>156,695</u>	<u>96,709</u>

Loans from related undertakings comprise a loan of PLN 111,699 thousand advanced to the Group by Pfeiderer AG of Germany (a related undertaking) to finance the construction of a new MDF board production plant in Russia. Under the loan the Group is to repay principal of EUR 17.2m plus interest on December 31st 2011, EUR 5m plus interest in August 2011, and EUR 3.3m plus interest on December 1st 2011.

Furthermore, Pfeiderer Service GmbH of Germany advanced a PLN 23,904 thousand subordinated loan to Pfeiderer MDF Sp., maturing in July 2016, and a PLN 21,092 thousand loan to Pfeiderer Grajewo S.A., maturing in June 2014.

12. Trade and Other Payables

	<u>Jun 30 2010</u>	<u>Dec 31 2009</u>
Trade payables	158,730	154,702
Trade payables – related undertakings	10,051	6,525
Liabilities under factoring agreements	13,868	43,784
VAT liabilities	1,335	725
Liabilities under investment supplies	1,127	1,683
Prepaid deliveries	2,499	1,729
Other liabilities	14,394	10,239
Total	<u>202,004</u>	<u>219,387</u>

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13. Financial Instruments

Objectives of and Methods for Financial Risk Management

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

The objective behind credit risk management is to reduce the Group'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 its cash flows. To manage its currency risk, it first relies on natural hedging and where necessary uses forward contracts. The objective of financial liquidity management is to protect the Group against insolvency. This objective is pursued through regular projection of debt levels over a five-year horizon, and arrangement of appropriate financing.

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

Liquidity Risk

As at June 30th 2010, the Pfleiderer Grajewo Group had debt under bank loans in the amount of PLN 1,017m. Concurrently, it had undrawn 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 bank loans disclosed as at December 31st 2009, in the amount of PLN 582,483 thousand.

The credit facility agreement contains financial covenants concerning the required level of certain financial ratios, which are based on consolidated financial data of the Pfleiderer Grajewo Group. The 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 monitors the ratios on an ongoing basis and, based on its short-term financial 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).

14. Contractual Obligations Assumed to Acquire Property, Plant and Equipment

Due to the unstable economic environment of the Group, the majority of investment projects were suspended and postponed for implementation in the next few years. As at June 30th 2010, the value of

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commenced investments, i.e. those projects that create an obligation on the part of the Group, did not exceed PLN 1,000 thousand.

15. Contingent Liabilities and Security Created on the Group's Assets

As at June 30th 2010 the Group's assets were encumbered with the following security interests:

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 an investment loan granted to the 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 over plant and equipment secures liabilities up to PLN 450,000 thousand and has been created over a floating group of assets owned by Pfeiderer 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 the 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.

3. Security for claims under a credit facility agreement of March 16th 2010, concluded 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.

On March 25th 2010, Pfeiderer Grajewo S.A. ("the Company") and its subsidiaries Pfeiderer 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"). They provide in particular for:

- creation of contractual blanket security mortgages over the Company's and the Subsidiaries' real estate on which production facilities are located, up to the maximum amount of PLN 1,400m;
- creation of 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 contracts;
- assignment by way of security of the Company's interest in co-ownership of plant and equipment intended to be used for the purposes of the MDF project in Russia;
- creation of financial and registered pledges over the Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfeiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.

As at June 30th 2010, the Company held 2,462,136 ordinary registered shares in Pfeiderer Prospan S.A.

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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 and 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 an agreement with the European Bank for Reconstruction and Development ("EBRD"), which is providing financing to Pfeiderer OOO of Russia under credit facility agreement of December 27th 2005. Under the agreement, the parties agreed upon the scope of the security to be created over the Company's and the Subsidiaries' assets. In this connection Pfeiderer Prospan S.A. and Silekol Sp. z o.o. joined the following agreements executed on December 28th 2005 between Pfeiderer Grajewo S.A. and the EBRD:

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

In order to secure the EBRD's claims under the guarantee agreement and the put/call option agreement, on March 25th 2010 the 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, up to the maximum amount of PLN 70.5m;
- registered pledges were created over assets owned by the Company and the Subsidiaries (pledge over a business), up to the maximum amount of PLN 79.5m.

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

- agreement creating a pledge over movable assets owned by Pfeiderer OOO;
- mortgage over real estate owned by Pfeiderer OOO, on which a production facility is located;
- agreement creating a pledge over the Company's equity interest in Pfeiderer OOO; the pledge was established over one share in Pfeiderer 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 Pfeiderer OOO's General Shareholders Meeting.

As at June 30th 2010, the Group issued the following surety:

Surety for up to PLN 35,624 thousand in respect of a blank promissory note issued by 3Spare Sp. z o.o. for the benefit of Bank BGŻ. The maximum amount of the blank promissory note, as specified in the promissory note declaration, is PLN 35,624 thousand. The 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.

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16. Material Related-Party Transactions

The table below shows information on the Group's transactions with related parties in the period January 1st – June 30th 2010.

Undertaking	Sales	Finance expenses	Purchases	Receivables as at Jun 30 2010	Liabilities as at Jun 30 2010	Financial liabilities as at Jun 30 2010	Prepayments for property, plant and equipment as at Jun 30 2010
Pfleiderer Service GmbH	2,212	992	3,841	2,218	3,774	44,996	0
Thermopal GmbH	2,191	0	0	150	0	0	0
Pfleiderer Aktiengesellschaft	2	5,479	2,558	0	3,509	111,699	74,437
Kunz Faserplattenwerk Baruth GmbH	999	0	0	0	0	0	0
BHT Bau + Holztechnik Thuringen GmbH	3,908	0	0	1,192	11	0	0
Jura Spedition	20	0	1,128	8	276	0	0
Pfleiderer Industrie GmbH	10,616	0	566	1,431	653	0	0
Pfleiderer Holzwerkstoffe GmbH & Co. KG	0	0	195	0	0	0	0
Pfleiderer Holzwerkstoffe Nidda GmbH & Co.KG	1,045	0	0	99	0	0	0
Pfleiderer Engineering International GmbH	0	0	272	0	186	0	0
Uniboard Canada Inc.	0	0	0	0	12	0	0
Wodego GmbH	12,452	0	2,017	356	423	0	0
Duropol GmbH	71	0	4,091	0	1,207	0	0
Total	33,516	6,471	14,668	5,454	10,051	156,695	74,437

GRUPA KAPITAŁOWA PFLEIDERER GRAJEWO S.A.

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Remuneration of Members of the Management and Supervisory Boards

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

As at June 30th 2010 and December 31st 2009, Wojciech Gątkiewicz, President of the Management Board, held 2,500 shares in the parent undertaking. On July 2nd 2010, Mr Wojciech Gątkiewicz purchased another 500 shares. The number of shares in the parent undertaking held by the other members of the parent undertaking's Management Board did not change relative to the information disclosed in the most recent annual financial statements.

17. Events Subsequent to the Balance-Sheet Date

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

GRUPA KAPITAŁOWA PFLEIDERER GRAJEWO S.A.

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18. Accounting Estimates and Assumptions

The Group makes estimates and assumptions relating to the future. Accounting estimates derived in that way may, by their nature, differ from the actual performance. Below are discussed those estimates and assumptions that are connected with a significant risk of having to make major adjustments to the carrying amounts of assets and liabilities in the course of the following financial year.

The Group performs reviews on a regular basis and recognises impairment losses on particular assets in the profit and loss account. In particular, impairment losses are recognised on trade receivables as well as on inventories of materials and finished goods. In addition, reviews of non-current assets are performed, including a review of their useful economic lives and circumstances affecting their recoverable amounts. The amount of provisions for future liabilities under retirement, sick-pension and length-of-service entitlements is determined with an actuarial method on the basis of adopted assumptions.

In H1 2010, no material change occurred with respect to the estimates and judgments relative to the Group's most recent annual consolidated financial statements for the financial year ended December 31st 2009.

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*

Agnieszka Kabus

Person responsible for keeping the accounting records

Grajewo, August 18th 2010