

## POLISH FINANCIAL SUPERVISION AUTHORITY

**Consolidated Quarterly Report QSr 4 / 2010**

quarter / year

(prepared in accordance with Par. 82.2 and Par. 83.3 of the Regulation of the Minister of Finance dated February 19th 2009 - Dz.U. No. 33, item 259)

for issuers conducting manufacturing, construction, trade or services business

for the 4th quarter of the financial year 2010, covering the period from October 1st to December 31st 2010,

including condensed consolidated financial statements prepared in accordance with the IFRS

currency: PLN

and condensed non-consolidated financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: February 28th 2011

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**Pfleiderer Grajewo Spółka Akcyjna**

(full name)

**GRAJEWO**

(abbreviated name)

**19-203**

(postal code)

**Wiórowa**

(street)

**0-86 272 96 00**

(telephone number)

grajewo@pfleiderer.pl

(e-mail)

**719-10-00-479**

(NIP – Tax Identification Number)

**wood products**

(sector according to the Warsaw Stock Exchange's classification)

**Grajewo**

(registered office)

**1**

(number)

**0-86 272 39 83**

(fax number)

www.pfleiderer.pl

(web site)

**4500933817**(REGON – Industry Registration Number)

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| FINANCIAL HIGHLIGHTS  | PLN '000  |   | EUR '000  |   |
|---|---|---|---|---|
|   | 4 quarter<br>cumulative / 2010<br>Jan 1-Dec 31 2010 | 4 quarter<br>cumulative / 2009<br>Jan 1-Dec 31 2009 | 4 quarter<br>cumulative / 2010<br>Jan 1-Dec 31 2010 | 4 quarter<br>cumulative / 2009<br>Jan 1-Dec 31 2009 |
|   | Condensed consolidated financial statements data    |   |   |   |
| I. Sales revenue  | 1 390 388   | 1 233 832   | 347 219   | 284 251   |
| II. Operating profit/(loss)   | 47 099  | 13 142  | 11 762  | 3 028   |
| III. Profit/(loss) before tax   | -34 771   | -71 261   | -8 683  | -16 417   |
| IV. Net profit  | -30 319   | -69 519   | -7 572  | -16 016   |
| V. Net profit attributable to equity holders of the parent                | -15 071   | -40 218   | -3 764  | -9 265  |
| VI. Net cash provided by (used in) operating activities                   | 109 394   | -3 019  | 27 319  | -696  |
| VII. Net cash provided by (used in) investing activities                  | -21 084   | -255 019  | -5 265  | -58 751   |
| VIII. Net cash provided by (used in) financing activities                 | -99 306   | 274 963   | -24 799   | 63 346  |
| IX. Total net cash flow   | -10 996   | 16 925  | -2 746  | 3 899   |
| X. Total assets   | 1 852 583   | 1 872 896   | 467 789   | 455 892   |
| XI. Liabilities   | 1 356 297   | 1 355 583   | 342 473   | 329 970   |
| XII. Non-current liabilities  | 1 032 164   | 452 358   | 260 628   | 110 111   |
| XIII. Current liabilities   | 324 133   | 903 225   | 81 846  | 219 859   |
| XIV. Equity   | 496 286   | 517 313   | 125 315   | 125 922   |
| XV. Share capital   | 16 376  | 16 376  | 4 135   | 3 986   |
| XVI. Weighted average number of shares                                    | 49 624 000  | 49 624 000  | 49 624 000  | 49 624 000  |
| XVII. Weighted average diluted number of shares                           | 49 624 000  | 49 624 000  | 49 624 000  | 49 624 000  |
| XVIII. Annualised net profit attributable to equity holders of the parent | -15 071   | -40 218   | -3 764  | -9 265  |
| XIX. Earnings per ordinary share (PLN/EUR)*                               | -0,30   | -0,81   | -0,08   | -0,19   |
| XX. Diluted earnings per ordinary share (PLN/EUR)*                        | -0,30   | -0,81   | -0,08   | -0,19   |
| XXI. Book value per share (PLN/EUR)                                       | 10,00   | 10,42   | 2,53  | 2,54  |
| XXII. Diluted book value per share (PLN/EUR)                              | 10,00   | 10,42   | 2,53  | 2,54  |
| XXIII. Declared or paid dividend per share (PLN/EUR)                      | 0,00  | 0,00  | 0,00  | 0,00  |
| Condensed financial statements data                                       |   |   |   |   |
| XXIV. Sales revenue   | 616 183   | 547 722   | 153 878   | 126 185   |
| XXV. Operating profit/(loss)  | 23 939  | 22 142  | 5 978   | 5 101   |
| XXVI. Profit/(loss) before tax  | 429   | 16 793  | 107   | 3 869   |
| XXVII. Net profit/(loss)  | 1 294   | 20 211  | 323   | 4 656   |
| XXVIII. Net cash provided by (used in) operating activities               | 62 506  | -50 957   | 15 609  | -11 740   |
| XXIX. Net cash provided by (used in) investing activities                 | -23 213   | -114 135  | -5 797  | -26 294   |
| XXX. Net cash provided by (used in) financing activities                  | -43 318   | 166 366   | -10 818   | 38 328  |
| XXXI. Total net cash flow   | -4 025  | 1 274   | -1 005  | 294   |
| XXXII. Total assets   | 1 480 137   | 1 428 470   | 373 744   | 347 712   |
| XXXIII. Liabilities   | 995 325   | 945 524   | 251 326   | 230 155   |
| XXXIV. Non-current liabilities  | 567 840   | 37 843  | 143 383   | 9 212   |
| XXXV. Current liabilities   | 427 485   | 907 681   | 107 943   | 220 944   |
| XXXVI. Equity   | 484 812   | 482 946   | 122 418   | 117 557   |
| XXXVII. Share capital   | 16 376  | 16 376  | 4 135   | 3 986   |
| XXXVIII. Weighted average number of shares                                | 49 624 000  | 49 624 000  | 49 624 000  | 49 624 000  |
| XXXIX. Weighted average diluted number of shares                          | 49 624 000  | 49 624 000  | 49 624 000  | 49 624 000  |
| XL. Annualised net profit   | 1 294   | 20 211  | 323   | 4 656   |
| XLI. Earnings per ordinary share (PLN/EUR)*                               | 0,03  | 0,41  | 0,01  | 0,09  |
| XLII. Diluted earnings per ordinary share (PLN/EUR)*                      | 0,03  | 0,41  | 0,01  | 0,09  |
| XLIII. Book value per share (PLN/EUR)                                     | 9,77  | 9,73  | 2,47  | 2,37  |
| XLIV. Diluted book value per share (PLN/EUR)                              | 9,77  | 9,73  | 2,47  | 2,37  |
| XLV. Declared or paid dividend per share (PLN/EUR)                        | 0,00  | 0,00  | 0,00  | 0,00  |

\* Based on annualised profit

**Consolidated Quarterly Report QSr 4/2010**

Pursuant to the Regulation of the Polish Council of Ministers on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. No. 33, item 259).

The Management Board of Pfleiderer Grajewo S.A. of Grajewo

hereby releases the quarterly report for Q4 2010.

## **PRESIDENT'S INTRODUCTION TO THE Q4 2010 CONSOLIDATED REPORT**

In the fourth quarter of 2010, the Pfleiderer Grajewo Group reported sales revenue of PLN 410m, a 14% rise year on year. It was yet another quarter of double-digit top-line growth. From the outset of 2010, we have seen signs of strong and sustainable recovery on the market for wood-based panels both in Poland and Russia. Following a major collapse in 2009, consumer demand for furniture has picked up considerably, particularly in the Western European countries. The trend was immediately reflected in the production volumes of Polish furniture manufacturers, our target customer group.

EBITDA continued to move upwards and reached PLN 44.0m in the fourth quarter, having grown by an impressive 42%, from PLN 31.0m in the corresponding period of the prior year. The full-year 2010 sales revenue, EBIT and EBITDA figures were stronger compared with 2009 as well.

Our Group has seen a gradual improvement in its financial standing. In the reporting period, we posted a net profit, with profitability being driven up by higher sales and effective cost-cutting measures. An important factor contributing to wider profit margins has been the strengthening of the Group's position in dealings with customers – this was possible thanks to increased capacity utilisation at the production plants in the region, which provided room for price rises to offset higher raw material costs.

In Q4 2010, we continued to capture the benefits of product portfolio diversification, achieved mainly through the launch of the new MFP product, which is becoming increasingly in demand.

Prices of strategic raw materials, notably wood and adhesives, rose on the previous quarter. However, we prevented the profitability ratios from being affected by making upward adjustments to our price lists.

Apart from striving to gradually improve the financial performance, our strategic objective for today is to complete the MDF project in Russia. Our company is in advanced negotiations with banks which could potentially provide the necessary funding. Considering that MDFs are in short supply on the Russian market, prompt completion of the project may aid the Group's profitability in the future.

With stronger financial performance and improved financial ratios as at December 31st 2010, the Group ensured compliance with all financial covenants. Despite the actively implemented hedging policy, the Group remains exposed to currency risk associated with the volatile fluctuations in the PLN/EUR and RUB/EUR exchange rates, which may adversely impact future financial results, chiefly on account of unrealised foreign-exchange losses on long-term financial liabilities.

Although a seasonal decline in sales is expected in the first quarter of 2011, the Management Board believes that the overall financial performance will see a further year-on-year improvement. Growth in sales revenue and financial metrics is expected to continue throughout 2011. However, due to recent changes in the economic and market conditions, the Management Board has again resolved to refrain from publishing a financial guidance for 2011.

Yours faithfully,

Wojciech Gątkiewicz,  
President of the Management Board

## **II. GENERAL INFORMATION**

### **1. General information on Pfleiderer Grajewo S.A. (Parent Undertaking)**

Pfleiderer Grajewo S.A. is the Parent Undertaking of the Pfleiderer Grajewo Group.

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

On September 18th 2002, the Management Board of the Parent Undertaking received a decision from the District Court of Białystok to enter the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Parent Undertaking's name was changed from Zakłady Płyt Wiórowych S.A. to Pfleiderer Grajewo S.A.

In accordance with the Polish Classification of Business Activities, the Company is registered under No. 1621 Z.

### **2. Composition of the Management Board and the Supervisory Board of the Parent Undertaking and changes in the reporting period**

As at the end of the reporting period, 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, Johann Bitzi was appointed by the Company's Supervisory Board to the Management Board of Pfleiderer Grajewo S.A. as its Vice-President.

Composition of the Supervisory Board as at December 31st 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.

**3. Periods covered by the consolidated financial statements and the comparative data**

The financial statements of Pfleiderer Grajewo S.A. (Parent Undertaking), Pfleiderer Prospan S.A., Pfleiderer OOO, Pfleiderer MDF OOO, Silekol Sp. z o.o., Pfleiderer MDF Sp. z o.o., Jura Polska Sp. z o.o., and Unifloor Sp. z o.o. (subsidiary undertakings) were consolidated using the full method. The financial data for the comparative period of Q4 2009 comprise separate financial statements of Pfleiderer Grajewo S.A. prepared in accordance with the IFRS, and separate financial statements of Pfleiderer Prospan S.A., Pfleiderer OOO, Pfleiderer MDF OOO, Silekol Sp. z o.o. and Pfleiderer MDF Sp. z o.o., Jura Polska Sp. z o.o. and Unifloor Sp. z o.o.

**III. CHANGES IN ACCOUNTING POLICIES****1. Accounting policies****(a) Compliance statement**

The financial statements of the Company were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASC), and in compliance with the interpretations issued by the IASC Standing Interpretations Committee.

The financial statements were prepared in accordance with the same accounting policies as those applied in the most recent annual financial statements.

**(b) Basis for preparation of the financial statements**

The companies comprising the Group, namely Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., and Silekol Sp. z o.o. maintain their accounting records in compliance with the International Financial Reporting Standards (IFRS), whereas Pfleiderer OOO and Pfleiderer MDF OOO apply accounting policies based on the Russian standards; their data was restated for the purpose of consolidation to meet the requirements imposed under the International Financial Reporting Standards. As concerns Jura Polska Sp. z o.o. and Unifloor Sp. z o.o., their accounting records are kept in accordance with the policies and common practice applied by Polish companies; their data was also restated for the purpose of consolidation. These consolidated financial statements prepared on the basis of the accounting records of the Group companies reflect adjustments made to show the consolidated financial standing, results and cash flows of the Group in accordance with the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board and the Standing Interpretations Committee.

These consolidated financial statements of the Group and the non-consolidated financial statements of the Parent Undertaking prepared as at December 31st 2010 have not been audited.

The separate financial statements of the Parent Undertaking as at December 31st 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASC), and in compliance with the interpretations issued by the IASC Standing Interpretations Committee.

## IV. FINANCIAL HIGHLIGHTS

### 1. Changes in the consolidated sales revenue

Below is presented a comparison of the Q4 2010 and Q4 2009 data.

| Income statement                                     | Q4 2010 Oct 1–<br>Dec 31 2010 |              | Q4 2009 Oct 1–<br>Dec 31 2009 |              |
|--|-------------------------------|--------------|-------------------------------|--------------|
|  | (PLN '000)                    | %            | (PLN '000)                    | %            |
|  | /A/                           | /B/          | /C/                           | /D/          |
| Sales revenue  | 409,813                       | 100.0%       | 358,468                       | 100.0%       |
| Cost of sales  | (334,606)                     | -81.6%       | (287,055)                     | -80.1%       |
| <b>Gross profit</b>                                  | <b>75,207</b>                 | <b>18.4%</b> | <b>71,413</b>                 | <b>19.9%</b> |
| Other income   | 1,767                         | 0.4%         | 507                           | 0.1%         |
| Selling costs  | (28,765)                      | -7.0%        | (24,022)                      | -6.7%        |
| General and administrative expenses                  | (22,495)                      | -5.5%        | (31,015)                      | -8.7%        |
| Other expenses                                       | (1,748)                       | -0.4%        | (14,267)                      | -4.0%        |
| <b>Operating profit</b>                              | <b>23,966</b>                 | <b>5.8%</b>  | <b>2,616</b>                  | <b>0.7%</b>  |
| Finance income                                       | 7,214                         | 1.8%         | 467                           | 0.1%         |
| Finance expenses                                     | (22,538)                      | -5.5%        | (17,477)                      | -4.9%        |
| <i>Net finance income/(expenses)</i>                 | <i>(15,324)</i>               | <i>-3.7%</i> | <i>(17,010)</i>               | <i>-4.7%</i> |
| <b>Profit before tax</b>                             | <b>8,642</b>                  | <b>2.1%</b>  | <b>(14,394)</b>               | <b>-4.0%</b> |
| Income tax   | (1,984)                       | -0.6%        | 1,217                         | 0.3%         |
| <b>Net profit</b>                                    | <b>6,658</b>                  | <b>1.5%</b>  | <b>(13,177)</b>               | <b>-3.7%</b> |
| Net profit attributable to minority interests        | (1,744)                       | -0.4%        | (9,068)                       | -2.5%        |
| <b>Net profit attributable to majority interests</b> | <b>8,402</b>                  | <b>1.9%</b>  | <b>(4,109)</b>                | <b>-1.1%</b> |
| <b>EBITDA</b>  | <b>44,076</b>                 | <b>10.8%</b> | <b>31,009</b>                 | <b>8.7%</b>  |

### Comments on the income statement

Sales revenue posted by the Group in Q4 2010 rose by 14.3% year on year. The rise is attributable to a recovery on the market for wood-based boards, fuelled by stronger demand for furniture in Europe.

In Q4 2010, sales margin was 18.4%, having declined by 1.5 percentage point from the Q4 2009 level. The lower sales margin reflects higher cost of sales driven by price hikes in key raw materials, such as wood, adhesives and resins.

The Group's operating profit for Q4 2010 was PLN 24.0m, compared with PLN 2.6m posted in the same period of prior year. The major improvement in operating performance was driven by stronger profit on sales and cost-cutting measures, mainly in the area of general and administrative expenses and other costs. In addition, in Q4 2009 the Group had to bear non-recurring costs related to the temporary suspension of the MDF/HDF plant construction project in the Russian Federation. The operating profit was further strengthened by the outcome of a periodic review of useful lives of tangible assets, performed in the third quarter of 2010.

The year-on-year increase in finance expenses was caused mainly by higher interest on loans, while the rise in finance income was fuelled by unrealised foreign exchange gains on EUR-denominated loans and borrowings contracted by the Russian subsidiaries.

## **2. Net cash position**

The Group's net debt under loans, finance leases and borrowings fell by PLN 47,513 thousand in Q4 2010, mainly due to a positive net result recorded in the period and a decrease in working capital. As at December 31st 2010, the Group's net debt under bank loans and borrowings stood at PLN 1,037,270 thousand.

## **3. Equity**

As at the end of Q4 2010, the Group's equity was PLN 496,286 thousand, up by PLN 11,633 thousand quarter on quarter. The increase is attributable mainly to net profit posted by the Group in Q4 2010 and to the favourable effects of translating equity interests in the Russian companies and RUB-denominated loans, caused by the higher RUB/PLN exchange rate.

## **4. Sale of shares or assets**

In Q4 2010, the Pfleiderer Grajewo Group reported a gain on the sale of non-current assets of PLN 200 thousand.

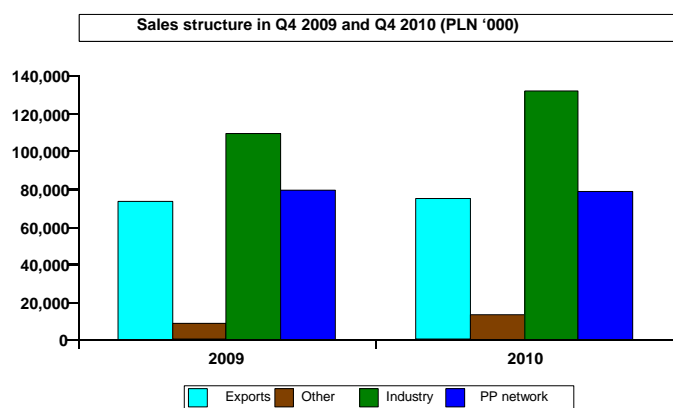
# **V. THE GROUP'S SALES**

## **1. Domestic and export sales**

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

- direct sales to the furniture industry,
- sales to Pfleiderer Partner (the PP Network) wholesalers, and
- export sales.

The Group's sales data comprises the sales of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., and Pfleiderer MDF Sp. z o.o.



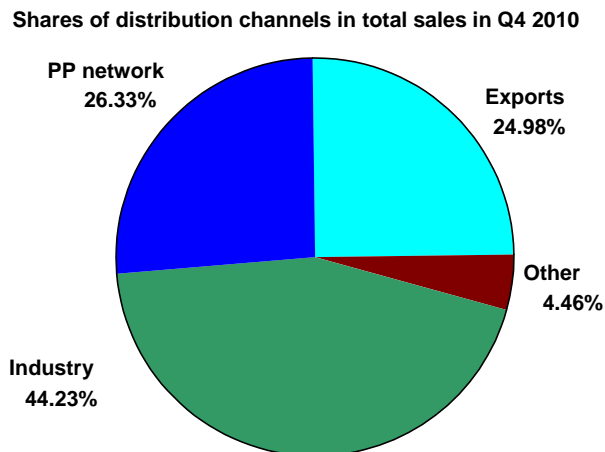
**Chart: Sales in Q4 2009 and Q4 2010 (PLN '000).**

In the Polish market, direct sales to large and medium-sized furniture producers and sales to the Pfleiderer Partner network continued to represent the most important distribution channels. Compared with the corresponding period of the prior year, in Q4 2010 sales to domestic furniture producers rose by 21% in value terms, while sales to the Pfleiderer Partner wholesale network shrank



by 1% in value terms. Export sales were up by 1.5% in the reporting period. Sales through other distribution channels rose by as much as 55%, mainly on the back of increased sales of the MFP, the newly launched product for construction applications.

In Q4 2010, the shares of individual distribution channels were as follows:



**Chart: Distribution channels in Q4 2010 (%).**

Relative to Q4 2009, the sales structure and the shares of individual distribution channels in total sales changed. The share of direct sales to large and medium-sized furniture producers rose from 40% to 44%. The share of sales to the Pfleiderer Partner wholesale network declined from 29% to 26%. The share of exports was also down – from 27% to 25%.

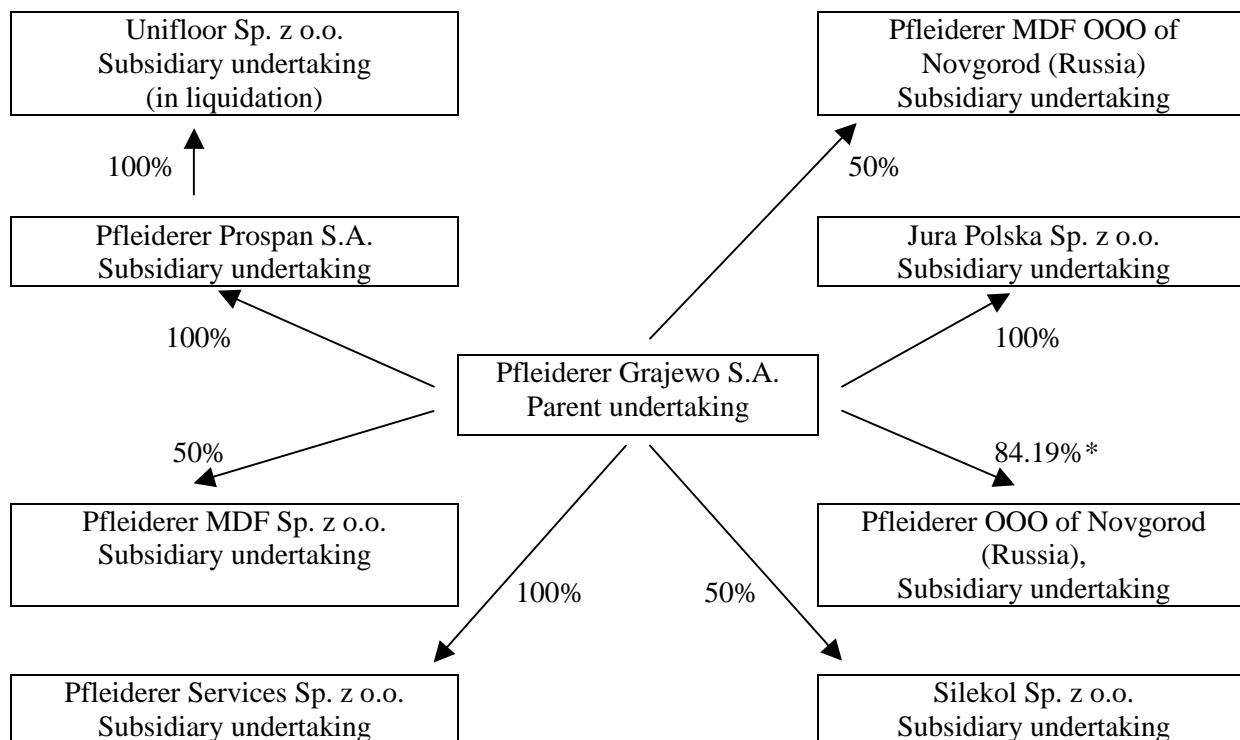
## **VI. Q4 2010 RESULTS**

### **1. Composition of the Pfleiderer Grajewo Group**

#### **a. Structure of the Pfleiderer Grajewo Group**

Pfleiderer Grajewo S.A. is the Parent Undertaking of Pfleiderer Prospan S.A. of Wieruszów (Poland), Pfleiderer OOO of Novgorod (Russia), Pfleiderer MDF OOO of Novgorod (Russia), Silekol Sp. z o.o. of Kędzierzyn-Koźle (Poland), Pfleiderer MDF Sp. z o.o. of Grajewo, Jura Polska Sp. z o.o. of Grajewo, Unifloor Sp. z o.o. of Wieruszów and Pfleiderer Services Sp. z o.o. of Grajewo.

**Structure of the Pfleiderer Grajewo Group as at December 31st 2010:**



\*Pfleiderer Grajewo S.A. holds a call option entitling the Company to early repurchase the shares in Pfleiderer OOO held by the EBRD. The EBRD holds a put option entitling it to sell early the shares held in Pfleiderer OOO to the Company in the event of a breach of the financing agreements. Accordingly, from the point of view of the Parent Undertaking (Pfleiderer Grajewo S.A.), Pfleiderer OOO is treated as a subsidiary undertaking in which Pfleiderer Grajewo S.A. holds 100% of shares. Moreover, in the consolidated financial statements of the Pfleiderer Grajewo Group, 100% of Pfleiderer OOO's profit is subject to consolidation.

The consolidated financial statements of the Group comprise the financial data of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Pfleiderer OOO, Pfleiderer MDF OOO, Silekol Sp. z o.o., Pfleiderer MDF Sp. z o.o., Jura Polska Sp. z o.o. and Unifloor Sp. z o.o.

**b. Changes in the Pfleiderer Grajewo Group's structure in the reporting period**

There were no changes in the structure of the Group in Q4 2010.

**c. Business profile**

**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 other 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**

The undertaking has been established to execute the investment project consisting in the construction of an MDF/HDF production plant in Novgorod (Russia).

**Silekol Sp. z o.o.**

Silekol Sp. z o.o. is a subsidiary undertaking which ensures steady supplies of high-quality adhesives used in the production of chipboards to the Parent Undertaking and the other subsidiary undertakings.

- manufacture of dyes and pigments,
- manufacture of other organic and inorganic chemicals,
- manufacture of paints and varnishes,
- manufacture of glues and gelatines,

**Pfleiderer MDF Sp. z o.o.**

- manufacture of MDF board and other wooden and wood-based boards,
- trade at home and abroad,
- production and distribution of heat.

**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.**

- The company has suspended its operations.

**d. Non-Consolidated Undertakings**

Since Pfleiderer Services Sp. z o.o. has suspended its operations and its financial data is immaterial for a clear and fair view of the Group's financial standing, the financial statements of the company were not consolidated.

**e. Subsidiary Undertakings Comprising 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.

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 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  
Tax Identification Number: 5310011273  
Registered office: 106 Tsentralnaya St, Novgorod Region 173502, Russia

**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 St, Novgorod Region 173502, Russia

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

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: 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.

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.** - 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

## 2. Consolidated financial results

### Consolidated statement of financial position as at December 31st 2010 (PLN '000)

|  | Note | Dec 31<br>2010   | Sep 30<br>2010   | Dec 31<br>2009   | Sep 30<br>2009   |
|--|------|------------------|------------------|------------------|------------------|
| <b>Assets</b>  |      |                  |                  |                  |                  |
| Property, plant and equipment                                      |      | 1,122,139        | 1,134,213        | 1,170,923        | 1,162,354        |
| Intangible assets  |      | 4,704            | 4,713            | 6,945            | 6,379            |
| Goodwill   |      | 107,829          | 107,829          | 107,829          | 107,829          |
| Investments in related undertakings                                |      | 52               | 52               | 52               | 52               |
| Other non-current financial assets                                 |      | 10               | 10               | 16               | 20               |
| Investment property  |      | 4,300            | 0                | 0                | 0                |
| Deferred tax assets  |      | 15,848           | 21,580           | 8,110            | 6,337            |
| Non-current receivables – prepayments for tangible assets          |      | 217,403          | 214,908          | 235,711          | 198,739          |
| Government assistance receivable                                   |      | 14,549           | 16,572           | 8,579            | 32,553           |
| <b>Non-current assets</b>  |      | <b>1,486,834</b> | <b>1,499,877</b> | <b>1,538,165</b> | <b>1,514,263</b> |
| Inventories  |      | 181,487          | 191,880          | 165,863          | 160,417          |
| Income tax receivable  |      | 724              | 365              | 2,097            | 1,152            |
| Trade and other receivables  | 1    | 163,057          | 194,109          | 135,766          | 152,027          |
| Other current financial assets                                     |      | 24               | 0                | 141              | 14               |
| Cash and cash equivalents  |      | 19,868           | 6,129            | 30,864           | 31,931           |
| Currency forwards  |      | 589              | 988              | 0                | 0                |
| <b>Current assets</b>  |      | <b>365,749</b>   | <b>393,471</b>   | <b>334,731</b>   | <b>345,541</b>   |
| <b>Total assets</b>  |      | <b>1,852,583</b> | <b>1,893,348</b> | <b>1,872,896</b> | <b>1,859,804</b> |
| <b>Equity</b>  |      |                  |                  |                  |                  |
| Share capital  |      | 16,376           | 16,376           | 16,376           | 16,376           |
| Share premium account  |      | 289,806          | 289,806          | 289,806          | 289,806          |
| Statutory reserve funds  |      | 153,711          | 153,729          | 133,518          | 133,518          |
| Revaluation reserve  |      | 619              | 0                | 0                | 0                |
| Valuation of forward contracts                                     |      | 589              | 988              | 0                | 269              |
| Exchange differences on translating subordinated undertakings      |      | (14,829)         | (15,979)         | (17,659)         | (14,997)         |
| Exchange differences on net investments in subsidiary undertakings |      | (15,349)         | (18,506)         | (19,484)         | (16,202)         |
| Retained earnings (deficit)  |      | 2,090            | (6,312)          | 37,372           | 41,481           |
| <b>Equity (attributable to owners of the parent)</b>               |      | <b>433,013</b>   | <b>420,102</b>   | <b>439,929</b>   | <b>450,251</b>   |
| <b>Minority interests</b>  |      | <b>63,273</b>    | <b>64,551</b>    | <b>77,384</b>    | <b>86,889</b>    |
| <b>Total equity</b>  |      | <b>496,286</b>   | <b>484,653</b>   | <b>517,313</b>   | <b>537,140</b>   |
| <b>Liabilities</b>   |      |                  |                  |                  |                  |
| Non-current portion of interest-bearing bank loans and borrowings  |      | 994,038          | 1,029,662        | 417,017          | 826,392          |
| Non-current portion of finance lease liability                     |      | 87               | 99               | 187              | 0                |
| Employee benefits payable  |      | 6,013            | 5,203            | 5,203            | 5,737            |
| Provisions   |      | 640              | 1,657            | 2,552            | 2,482            |
| Deferred tax liabilities   |      | 5,535            | 9,941            | 5,444            | 7,112            |
| Deferred income under government assistance                        |      | 25,851           | 26,887           | 21,955           | 44,668           |
| <b>Non-current liabilities</b>                                     |      | <b>1,032,164</b> | <b>1,073,449</b> | <b>452,358</b>   | <b>886,391</b>   |
| Loans and borrowings   |      | 62,870           | 60,971           | 664,630          | 136,708          |
| Current portion of finance lease liability                         |      | 142              | 180              | 265              | 0                |
| Income tax payable   |      | 0                | 818              | 186              | 468              |
| Trade and other payables   | 2    | 243,647          | 257,727          | 219,387          | 278,269          |
| Employee benefits payable  |      | 16,286           | 13,116           | 16,881           | 17,130           |
| Deferred income under government assistance                        |      | 1,188            | 2,434            | 1,876            | 3,698            |
| <b>Current liabilities</b>   |      | <b>324,133</b>   | <b>335,246</b>   | <b>903,225</b>   | <b>436,273</b>   |
| <b>Total liabilities</b>   |      | <b>1,356,297</b> | <b>1,408,695</b> | <b>1,355,583</b> | <b>1,322,664</b> |
| <b>Total equity and liabilities</b>                                |      | <b>1,852,583</b> | <b>1,893,348</b> | <b>1,872,896</b> | <b>1,859,804</b> |

| <b>OFF-BALANCE-SHEET<br/>ITEMS</b>   | Dec 31 2010<br>end of Q4 2010<br>(PLN '000) | Sep 30 2010<br>end of Q3 2010<br>(PLN '000) | Dec 31 2009<br>end of Q4 2009<br>(PLN '000) | Sep 30 2009<br>end of Q3 2009<br>(PLN '000) |
|--------------------------------------|---|---|---|---|
| Contingent liabilities               | 6,662                                       | 11,456                                      | 32,399                                      | 24,663                                      |
| To other undertakings,<br>including: | 6,662                                       | 11,456                                      | 32,399                                      | 24,663                                      |
| - guarantees and sureties issued     | 6,662                                       | 11,456                                      | 32,399                                      | 24,663                                      |
| Total off-balance-sheet items        | 6,662                                       | 11,456                                      | 32,399                                      | 24,663                                      |

### **Comments on changes in key balance-sheet items**

The PLN 12m decrease in property, plant and equipment was attributable mainly to the depreciation charges and foreign-exchange differences on translation of tangible assets held by the Russian companies.

As at the end of the fourth quarter, there was no change in goodwill, prepayments for tangible assets and government assistance receivables. The decrease in intangible assets was due to their periodic amortisation.

As at the end of Q4 2010, inventories stood at PLN 181m, having slightly decreased relative to PLN 192m as at the end of Q3 2010. The decrease followed from inventory optimisation.

Working capital rationalisation and shortening of the average collection period were the reasons behind lower trade and other receivables as at December 31st 2010, as compared with the end of September 2010, and a stronger cash position.

As at the end of Q4 2010, the Group's total equity was PLN 496m, having increased by PLN 11.6m relative to the previous period. The increase was caused mainly by a PLN 1.2m fall in foreign exchange losses on translation of subordinated undertakings, and a PLN 3.2m improvement in valuation of net investments in subsidiary undertakings, slightly offset by a PLN 0.4m decrease in gains on valuation of financial instruments following from the application of hedge accounting. The positive effect was further reinforced by net profit of PLN 6.7m earned in Q4 2010.

As at the year end, liabilities fell by PLN 52m relative to the end of Q3 2010. The fall was driven chiefly by a PLN 33.7m decrease in loans and borrowings and a nearly PLN 14m decrease in trade and other payables as a result of a reduction in the average payment period at the Group.

**Consolidated statement of comprehensive income for the period January 1st–December 31st 2010**  
**(PLN '000)**

|  | Total<br>Jan 1 –<br>Dec 31 2010 | Total<br>Jan 1 –<br>Dec 31 2009 |
|--|---------------------------------|---------------------------------|
|  | Continuing<br>operations        | Continuing<br>operations        |
| Sales revenue  | 1,390,388                       | 1,233,832                       |
| Cost of sales  | (1,134,551)                     | (1,018,519)                     |
| <b>Gross profit</b>  | <b>255,837</b>                  | <b>215,313</b>                  |
| Other income   | 8,223                           | 27,294                          |
| Selling costs  | (92,653)                        | (77,882)                        |
| General and administrative expenses                                | (108,414)                       | (122,357)                       |
| Other expenses   | (15,894)                        | (29,226)                        |
| <b>Operating profit</b>  | <b>47,099</b>                   | <b>13,142</b>                   |
| Finance income   | 9,097                           | 8,832                           |
| Finance expenses   | (90,967)                        | (93,235)                        |
| Net finance income/(expenses)                                      | 3 (81,870)                      | (84,403)                        |
| <b>Loss before tax</b>   | <b>(34,771)</b>                 | <b>(71,261)</b>                 |
| Corporate income tax   | 4,452                           | 1,742                           |
| <b>Net loss</b>  | <b>(30,319)</b>                 | <b>(69,519)</b>                 |
| Attributable to non-controlling interests                          | (15,248)                        | (29,301)                        |
| <b>Attributable to owners of the parent</b>                        | <b>(15,071)</b>                 | <b>(40,218)</b>                 |
| <b>EBITDA</b>  | <b>146,114</b>                  | <b>129,677</b>                  |
| <b>Other income/expenses</b>                                       |                                 |                                 |
| Exchange differences on translating subsidiary undertakings        | 3,967                           | (12,024)                        |
| Exchange differences on net investments in subsidiary undertakings | 4,135                           | (20,120)                        |
| Exchange differences on valuation of forward contracts             | 589                             | 0                               |
| <b>Other income/expenses</b>                                       | <b>8,691</b>                    | <b>(32,144)</b>                 |
| <b>Total income/expenses for period</b>                            | <b>(21,628)</b>                 | <b>(101,663)</b>                |
| <b>Total income/expenses for period attributable to:</b>           |                                 |                                 |
| Owners of the parent   | (7,517)                         | (69,563)                        |
| Minority interests   | (14,111)                        | (32,100)                        |
| <b>Total income/expenses for period</b>                            | <b>(21,628)</b>                 | <b>(101,663)</b>                |
| Diluted earnings per share (PLN)                                   | (0.30)                          | (0.81)                          |



**PFLEIDERER GRAJEWO GROUP**  
Extended consolidated report for Q4 2010

**Statement of changes in consolidated equity for the period January 1st–December 31st 2010 (PLN ‘000)**

|  | 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            |
|--|---------------|-----------------------|-------------------------|---|--|-------------------|-----------------|---------------------------|------------------|
| <b>Balance as at Jan 1 2009</b>                                    | <b>16,376</b> | <b>289,806</b>        | <b>89,174</b>           | <b>(8,434)</b>  | <b>636</b>   | <b>121,934</b>    | <b>509,492</b>  | <b>109,484</b>            | <b>618,976</b>   |
| <b>Comprehensive income for period</b>                             |               |                       |                         |   |  |                   |                 |                           |                  |
| Net loss   | 0             | 0                     | 0                       | 0   | 0  | (40,218)          | (40,218)        | (29,301)                  | (69,519)         |
| <b>Other comprehensive income</b>                                  |               |                       |                         |   |  |                   |                 |                           |                  |
| Exchange differences on translating subordinated undertakings      | 0             | 0                     | 0                       | (9,225)   | 0  | 0                 | (9,225)         | (2,799)                   | (12,024)         |
| Exchange differences on net investments in subsidiary undertakings | 0             | 0                     | 0                       | 0   | (20,120)   | 0                 | (20,120)        | 0                         | (20,120)         |
| <b>Total other comprehensive income</b>                            | <b>0</b>      | <b>0</b>              | <b>0</b>                | <b>(9,225)</b>  | <b>(20,120)</b>  | <b>0</b>          | <b>(29,345)</b> | <b>(2,799)</b>            | <b>(32,144)</b>  |
| <b>Total comprehensive income for period</b>                       | <b>0</b>      | <b>0</b>              | <b>0</b>                | <b>(9,225)</b>  | <b>(20,120)</b>  | <b>(40,218)</b>   | <b>(69,563)</b> | <b>(32,100)</b>           | <b>(101,663)</b> |
| <b>Transactions with owners recognised in equity</b>               |               |                       |                         |   |  |                   |                 |                           |                  |
| Transfer of part of 2008 net profit to statutory reserve funds     | 0             | 0                     | 44,344                  | 0   | 0  | (44,344)          | 0               | 0                         | 0                |
| <b>Total transactions with owners recognised in equity</b>         | <b>0</b>      | <b>0</b>              | <b>44,344</b>           | <b>0</b>  | <b>0</b>   | <b>(44,344)</b>   | <b>0</b>        | <b>0</b>                  | <b>0</b>         |
| <b>Balance as at Dec 31 2009</b>                                   | <b>16,376</b> | <b>289,806</b>        | <b>133,518</b>          | <b>(17,659)</b>   | <b>(19,484)</b>  | <b>37,372</b>     | <b>439,929</b>  | <b>77,384</b>             | <b>517,313</b>   |

**PFLEIDERER GRAJEWO GROUP**  
**Extended consolidated report for Q4 2010**

|  | Share capital | Share premium account | Statutory reserve funds | Revaluation reserve | Exchange differences on translating subordinated undertakings | Exchange differences on net investments in subsidiary undertakings | Valuation of forward contracts | Retained earnings/(deficit) | Total          | Minority interests | Total           |
|--|---------------|-----------------------|-------------------------|---------------------|---|--|--------------------------------|-----------------------------|----------------|--------------------|-----------------|
| <b>As at Jan 1 2010</b>  | <b>16,376</b> | <b>289,806</b>        | <b>133,518</b>          | <b>0</b>            | <b>(17,659)</b>   | <b>(19,484)</b>  | <b>0</b>                       | <b>37,372</b>               | <b>439,929</b> | <b>77,384</b>      | <b>517,313</b>  |
| <b>Comprehensive income for period</b>                             |               |                       |                         |                     |   |  |                                |                             |                |                    |                 |
| Net loss   | 0             | 0                     | 0                       | 0                   | 0   | 0  | 0                              | (15,071)                    | (15,071)       | (15,248)           | (30,319)        |
| <b>Other comprehensive income</b>                                  |               |                       |                         |                     |   |  |                                |                             |                |                    |                 |
| Exchange differences on translating subordinated undertakings      | 0             | 0                     | 0                       | 0                   | 2,830   | 0  | 0                              | 0                           | 2,830          | 1,137              | 3,967           |
| Exchange differences on net investments in subsidiary undertakings | 0             | 0                     | 0                       | 0                   | 0   | 4,135  | 0                              | 0                           | 4,135          | 0                  | 4,135           |
| Exchange differences on valuation of forward contracts             | 0             | 0                     | 0                       | 0                   | 0   | 0  | 589                            | 0                           | 589            | 0                  | 589             |
| <b>Total other comprehensive income</b>                            | <b>0</b>      | <b>0</b>              | <b>0</b>                | <b>0</b>            | <b>2,830</b>  | <b>4,135</b>   | <b>589</b>                     | <b>0</b>                    | <b>7,554</b>   | <b>1,137</b>       | <b>8,691</b>    |
| <b>Total comprehensive income for period</b>                       | <b>0</b>      | <b>0</b>              | <b>0</b>                | <b>0</b>            | <b>2,830</b>  | <b>4,135</b>   | <b>589</b>                     | <b>(15,071)</b>             | <b>(7,517)</b> | <b>(14,111)</b>    | <b>(21,628)</b> |
| <b>Transactions with owners recognised in equity</b>               |               |                       |                         |                     |   |  |                                |                             |                |                    |                 |
| Investment revaluation at Prospan S.A.                             | 0             | 0                     | 0                       | 619                 | 0   | 0  | 0                              | 0                           | 619            | 0                  | 619             |
| Disposal of land   | 0             | 0                     | (18)                    | 0                   | 0   | 0  | 0                              | 0                           | (18)           | 0                  | (18)            |
| Transfer of part of 2009 net profit to statutory reserve funds     | 0             | 0                     | 20,211                  | 0                   | 0   | 0  | 0                              | (20,211)                    | 0              | 0                  | 0               |
| Allocation of profit to dividend payments                          | 0             | 0                     | 0                       | 0                   | 0   | 0  | 0                              | 0                           | 0              | 0                  | 0               |
| <b>Balance as at Sep 31 2010</b>                                   | <b>16,376</b> | <b>289,806</b>        | <b>153,711</b>          | <b>619</b>          | <b>(14,829)</b>   | <b>(15,349)</b>  | <b>589</b>                     | <b>,2,090</b>               | <b>433,013</b> | <b>63,273</b>      | <b>496,286</b>  |

**Consolidated statement of cash flows for the period January 1st–December 31st 2010 (PLN ‘000)**

|  | <b>Jan 1 –<br/>Dec 31 2010</b> | <b>Jan 1 –<br/>Dec 31 2009</b> |
|--|--------------------------------|--------------------------------|
| <b>Cash flows from operating activities</b>                                  |                                |                                |
| <b>Net loss</b>  | <b>(30,319)</b>                | <b>(69,519)</b>                |
| Adjustments  | 142,860                        | 61,434                         |
| Depreciation and amortisation  | 99,015                         | 116,535                        |
| Foreign exchange gains   | (8,546)                        | 21,645                         |
| Interest for period  | 85,387                         | 57,943                         |
| Gain/loss on disposal of intangible assets and property, plant and equipment | (2,915)                        | (2,733)                        |
| Income tax expense   | (4,452)                        | (1,742)                        |
| Deferred income tax charged to equity  | 970                            | (4,719)                        |
| Change in trade and other receivables  | (27,291)                       | 32,173                         |
| Change in inventories  | (15,624)                       | 13,256                         |
| Change in trade and other payables   | 24,694                         | (120,563)                      |
| Change in employee benefits payable  | 215                            | (5,267)                        |
| Change in provisions   | (1,912)                        | 143                            |
| Change resulting from government assistance                                  | (2,762)                        | (2,784)                        |
| Change resulting from valuation of forward contracts                         | 0                              | (37,946)                       |
| Change in currency-translation differences on consolidation                  | (1,814)                        | (4,507)                        |
| Gain on forward contracts  | (2,105)                        | 0                              |
| <b>Cash provided by/(used in) operating activities</b>                       | <b>112,541</b>                 | <b>(8,085)</b>                 |
| Interest received/paid   | (169)                          | 503                            |
| Income tax paid  | (2,978)                        | 4,563                          |
| <b>Net cash provided by/(used in) operating activities</b>                   | <b>109,394</b>                 | <b>(3,019)</b>                 |
| <b>Cash flows from investing activities</b>                                  |                                |                                |
| Sale of non-current assets   | 708                            | 4,207                          |
| Other cash provided by financial assets                                      | 123                            | (110)                          |
| Acquisition of intangible assets and property, plant and equipment           | (21,915)                       | (245,153)                      |
| Exchange differences from investing activities                               | 0                              | (13,963)                       |
| <b>Net cash provided by/ (used in) investing activities</b>                  | <b>(21,084)</b>                | <b>(255,019)</b>               |
| <b>Cash flows from financing activities</b>                                  |                                |                                |
| Repayment of loans and borrowings  | (609,178)                      | 0                              |
| Increase in loans and borrowings   | 577,669                        | 331,244                        |
| Interest paid  | (67,797)                       | (56,281)                       |
| <b>Cash provided by/(used in) financing activities</b>                       | <b>(99,306)</b>                | <b>274,963</b>                 |
| Change in cash   | (10,996)                       | 16,925                         |
| Cash at beginning of period  | 30,864                         | 13,939                         |
| <b>Cash at end of period</b>   | <b>19,868</b>                  | <b>30,864</b>                  |

## **VII. CAPITAL EXPENDITURE**

In Q4 2010, the Pfleiderer Grajewo Group incurred capital expenditure of PLN 1,139 thousand.

## **VIII. SUPPLEMENTARY INFORMATION**

### **1. Material agreements**

In Q4 2010, the Group did not enter into any agreements which could be deemed material.

### **2. Provisions**

As at the end of Q4 2010, the Group maintained a provision for employee benefits of PLN 22,299 thousand. The amount of the provision grew by PLN 3,980 thousand on Q3 2010. It is the only provision held by the Group under IAS. Currently, Pfleiderer Grajewo S.A. maintains no other provisions under IAS.

In Q4 2010, deferred tax assets fell by PLN 5,732 thousand quarter on quarter, while deferred tax liabilities were down by PLN 4,406 thousand. In the reporting period, no major changes were made in respect of the impairment losses, which would have a material bearing on the Group's financial performance.

### **3. Guarantees and sureties**

As at December 31st 2010, Pfleiderer Grajewo S.A. had four outstanding sureties for an aggregate amount of up to PLN 72,474 thousand, including a surety of up to EUR 12,319 thousand issued for an unspecified period for the benefit of the European Bank for Reconstruction and Development to secure the liabilities of Pfleiderer OOO under a bank loan.

As at December 31st 2010, the amount of underlying debt secured with the sureties stood at PLN 60,519 thousand.

Additionally, Pfleiderer Grajewo S.A. has a contingent liability towards the European Bank for Reconstruction and Development under the Put/Call Option Agreement of December 28th 2005. In performance of the Agreement, in Q2 2007, Pfleiderer OOO issued, and the EBRD acquired, new shares worth EUR 7m. The Agreement provides for the Bank's equity involvement for five years. After that, the shares will be sold to Pfleiderer Grajewo S.A. 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 to Pfleiderer OOO. Pfleiderer Grajewo S.A. has a call option enabling it to repurchase the shares held by the Bank at any time before the lapse of the five-year period. EBRD holds a put option enabling it to sell the shares before December 28th 2010 if the financing agreements concluded by the Company and Pfleiderer OOO with the EBRD are breached and if there arises the risk that the shares may not be purchased by the agreed deadline.

Furthermore, Pfleiderer Prospan S.A. and Silekol Sp. z o.o. had contingent liabilities towards banks under loans contracted by:

- Pfleiderer Grajewo S.A. – towards a syndicate of Polish banks (a loan of PLN 700,000 thousand)
- Pfleiderer OOO and Pfleiderer Grajewo S.A. – towards EBRD (a bank loan and put option in the total amount of PLN 21,028 thousand).

The other companies of the Group did not issue any guarantees or sureties.

**4. Changes in contingent assets and liabilities**

In Q4 2010, contingent liabilities assumed by Pfleiderer Grajewo S.A. decreased by a considerable amount as the borrowers repaid a major portion of the loans secured by sureties.

**5. Contracted and repaid loans and borrowings; debt and equity issues**

In Q4 2010, Pfleiderer Grajewo S.A. carried out 17 issues of commercial paper in the form of short-term notes with a view to optimising the management of financial liquidity within the Group. The notes were issued pursuant to a commercial paper programme agreement executed with Bank PEKAO S.A. on July 22nd 2003 and in accordance with the Polish Bonds Act of June 29th 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes will be redeemed at their par value. They were acquired by two subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o.

**6. Dividend paid**

In Q4 2010, no decisions were made concerning any dividend payments.

**7. Performance forecast**

Given the highly volatile market environment, Pfleiderer Grajewo S.A. had not published any forecasts of its financial performance in 2010.

**8. Material events subsequent to December 31st 2010**

With effect from February 8th 2011, Johann Bitzi, Vice-President of the Management Board, was removed from office as member of Pfleiderer Grajewo S.A.'s Management Board.

On January 25th 2011, Pfleiderer Grajewo S.A. received a notification from Wojciech Gątkiewicz, President of the Management Board, dated January 21st 2011. In the notification, Mr Gątkiewicz, acting pursuant to Art. 60 of the Act on Trading in Financial Instruments of July 29th 2005, notified the Company that in 2010 he acquired Company shares with the total value of up to EUR 5,000. Purchase of 500 ordinary shares was executed as part of ordinary session transactions on the Warsaw Stock Exchange.

On February 8th 2011, Pfleiderer Grajewo S.A. received a notification under Art. 160 of the Act on Trading in Financial Instruments of July 19th 2005. In the notification, a member of the Supervisory Board of Pfleiderer Grajewo S.A. notified the Company of the purchase of 10,000 Company shares in transactions executed on the Warsaw Stock Exchange on February 4 and February 7th 2011 at the average price of PLN 16.30.

After December 31st 2010, Pfleiderer Grajewo S.A. carried out 7 issues of commercial paper in the form of short-term notes with a view to optimising the management of financial liquidity within the Group. The notes were issued pursuant to a commercial paper programme agreement executed with Bank PEKAO S.A. on July 22nd 2003 and in accordance with the Polish Bonds Act of June 29th 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes will be redeemed at their par value. They were acquired by subsidiary undertaking Pfleiderer Prospan S.A.

**9. Changes in the capital structure of the Group**

There were no changes in the structure of the Group in Q4 2010.

**10. Transactions with owners and related parties**

In Q4 2010, Pfleiderer Grajewo S.A. carried out 17 issues of short-term notes, all of which were acquired by Pfleiderer Prospan S.A. and Silekol Sp. z o.o.

**11. Change in the number of shares or options held by the management and supervisory staff**

As at the publication date of this report, the number of Pfleiderer Grajewo S.A. shares held by the Management Board members was as follows:

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

Paweł Wyrzykowski, Chairman of the Supervisory Board, held 4,080 shares in Pfleiderer Grajewo S.A.  
Jan Woźniak, Member of the Supervisory Board, held 10,000 shares in Pfleiderer Grajewo S.A.

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

**12. Shareholder structure of the Company as at the report publication date**

| Shareholder structure as at Feb 28 2011 | No. of shares     | % of share capital held | No. 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%           |
| <b>TOTAL</b>                            | <b>49,624,000</b> | <b>100.00%</b>          | <b>49,624,000</b>  | <b>100.00%</b>   |

The information on the number of shares in Pfleiderer Grajewo S.A. held by Aviva OFE (former Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK) is based on the most recent notification of change in the number of shares held, received by the Company on July 9th 2007.

Information on the holding of Pfleiderer Grajewo S.A. shares by ING OFE is based on the most recent notification of change in the number of shares, received by the Company on June 5th 2009.

The number of shares held by the principal shareholder, Pfleiderer Service GmbH, did not change in the fourth quarter of 2010.

### **13. 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.

### **14. Other material information**

On October 8th 2010, Pfleiderer MDF Sp. z o.o. received a decision issued on October 6th 2010 by the District Court in Białystok on the entry into the pledge register of a registered pledge over the business of Pfleiderer MDF Sp. z o.o., a subsidiary of Pfleiderer Grajewo S.A. The registered pledge was created under an agreement on registered pledge over assets, concluded on July 30th 2010 between Pfleiderer MDF Sp. z o.o. and Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. The pledge, with the maximum security amount of PLN 83,163,000, was created for the benefit of Powszechna Kasa Oszczędności Bank Polski S.A. to secure claims under a PLN 57,000,000 credit facility granted to Pfleiderer MDF Sp. z o.o. by Powszechna Kasa Oszczędności Bank Polski S.A. on the basis of an agreement of August 29th 2007. The pledge was created in connection with the extension of the term of the working capital loan by three years, until June 30th 2013. The same assets are also encumbered with a pledge created earlier for the benefit of Powszechna Kasa Oszczędności Bank Polski S.A. in connection with an investment loan agreement of January 15th 2007.

On November 8th 2010, Pfleiderer Prospan S.A. received a decision issued on October 29th 2010 by the District Court for Łódź Śródmieście on the entry into the pledge register of a registered pledge over the business of Pfleiderer Prospan S.A. of Wieruszów, a subsidiary of Pfleiderer Grajewo S.A. The registered pledge was created under an agreement on registered pledge over assets, concluded on March 25th 2010 between Pfleiderer Prospan S.A. and the European Bank for Reconstruction and Development. The pledge, with the maximum security amount of PLN 79,500,000 was created in favour of the EBRD to secure the repayment of debt under the following agreements executed by the Company with the EBRD on December 28th 2005:

- (a) a guarantee agreement securing the EBRD's claims under the loan advanced to Pfleiderer OOO; the current amount of the loan is EUR 12,649,573.00 (equivalent of PLN 49,659,693.68);
- (b) a put/call option agreement concerning Pfleiderer OOO shares acquired by the EBRD, amounting to EUR 7,000,000 (equivalent of PLN 27,480,600.00), entered into by Pfleiderer Prospan S.A. on March 25th 2010.

### **15. Financial instruments**

As the Group conducts its production and trading activities in a number of European countries, it is exposed to foreign exchange risk related to the EUR/PLN exchange rate. Polish companies from the Group have mainly been using natural hedging, by selecting the best currency structures for their sale and purchase contracts. The complementary hedging method used are currency forwards.

As at December 31st 2010, Pfleiderer Grajewo S.A. was party to eight EUR/PLN forward contracts for the sale of EUR 8,000 thousand. As at December 31st 2010, the Company recorded a gain of PLN 589 thousand on valuation of forward contracts.

As at December 31st 2010, the other Group companies were not parties to any derivatives transactions.

The key sources of EUR/RUB foreign exchange risk in Russia include:

- EUR-denominated loan contracted by Pfleiderer OOO with the EBRD,
- EUR-denominated loans contracted by Pfleiderer MDF OOO with Pfleiderer AG.

As at December 31st 2010, the FX risk exposure in Russia was unhedged.

In Q4 2010, the Group did not hedge its interest rate risk or the risk associated with fluctuations of prices of raw materials.

The Group applies hedge accounting, and any changes in the valuation of transactions hedging its export sales are presented under equity. Gain or loss on forward contracts is taken to the income statement in the month in which a given derivative transaction is settled.

In 2010, the total positive impact of forward transactions on the income statement was PLN 2,105 thousand.

## **16. Business segments**

A business segment is a distinguishable component of the Group engaged either in providing specific products or services (industry segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

The Group's export sales in Q4 2010 (chiefly to Russia, Lithuania, Latvia and Ukraine) accounted for 24.98% of total sales of the Group.

## **17. Notes to the consolidated balance sheet**

### **Note 1 – Trade and other receivables (PLN '000)**

|   | <b>Dec 31<br/>2010</b> | <b>Sep 30<br/>2010</b> | <b>Dec 31<br/>2009</b> | <b>Sep 30<br/>2009</b> |
|---|------------------------|------------------------|------------------------|------------------------|
| Trade receivables                           | 119,741                | 138,122                | 94,368                 | 111,376                |
| Trade receivables from related undertakings | 6,816                  | 10,769                 | 700                    | 140                    |
| Current prepayments and accrued income      | 7,149                  | 16,291                 | 4,093                  | 8,059                  |
| Current VAT receivables                     | 22,806                 | 26,460                 | 29,816                 | 23,207                 |
| Other receivables                           | 6,545                  | 2,467                  | 6,789                  | 9,245                  |
| <b>Total</b>                                | <b>163,057</b>         | <b>194,109</b>         | <b>135,766</b>         | <b>152,027</b>         |

### **Note 2 – Trade and other payables (PLN '000)**

|  | <b>Dec 31 2010</b> | <b>Sep 30 2010</b> | <b>Dec 31 2009</b> | <b>Sep 30 2009</b> |
|--|--------------------|--------------------|--------------------|--------------------|
| Trade payables                               | 194,001            | 209,500            | 154,702            | 144,674            |
| Liabilities to related undertakings          | 13,908             | 11,388             | 6,525              | 7,318              |
| VAT liabilities                              | 1,087              | 773                | 725                | 1,665              |
| Liabilities under factoring agreements       | 18,473             | 16,223             | 43,784             | 40,941             |
| Liabilities under investment supplies        | 1,340              | 666                | 1,683              | 1,383              |
| Prepaid deliveries from related undertakings | 0                  | 0                  | 0                  | 60,202             |
| Prepaid deliveries                           | 3,109              | 1,976              | 1,729              | 2,111              |
| Interest expense payable                     | 0                  | 0                  | 0                  | 824                |
| Liabilities under forward contracts          | 0                  | 0                  | 0                  | 7,666              |
| Other liabilities                            | 11,729             | 17,201             | 10,239             | 11,485             |
| <b>Total</b>                                 | <b>243,647</b>     | <b>257,727</b>     | <b>219,387</b>     | <b>278,269</b>     |



**18. Notes to the consolidated income statement (PLN '000) – Note 3**

|  | <u>Jan 1 –<br/>Dec 31 2010</u> | <u>Jan 1 –<br/>Dec 31 2009</u> |
|--|--------------------------------|--------------------------------|
| Finance income   |                                |                                |
| Interest income  | 551                            | 3,070                          |
| Foreign exchange gains                                       | 6,441                          | 0                              |
| Gains on forward contracts                                   | <u>2,105</u>                   | <u>5,762</u>                   |
|  | <u>9,097</u>                   | <u>8,832</u>                   |
| Finance expenses   |                                |                                |
| Interest expense   | 85,938                         | 61,013                         |
| Net foreign exchange losses                                  | 0                              | 7,996                          |
| Loss on forward contracts                                    | 0                              | 19,411                         |
| Other finance expenses                                       | <u>5,029</u>                   | <u>4,815</u>                   |
|  | <u>90,967</u>                  | <u>93,235</u>                  |
| <b>Net finance expenses</b>                                  | <b><u>(81,870)</u></b>         | <b><u>(84,403)</u></b>         |
| <b>Exchange differences (including on forward contracts)</b> |                                |                                |
| Realised   | (953)                          | (11,280)                       |
| Unrealised   | 9,499                          | (10,365)                       |

**PLN/EUR exchange rates applied to translate the amounts disclosed under "Financial Highlights":**

| <b>Date</b>                             | <b>EUR</b> | <b>PLN</b>    |
|---|------------|---------------|
| Jan 29 2010                             | EUR 1      | 4.0616        |
| Feb 26 2010                             | EUR 1      | 3.9768        |
| Mar 31 2010                             | EUR 1      | 3.8622        |
| Apr 30 2010                             | EUR 1      | 3.9020        |
| May 31 2010                             | EUR 1      | 4.0770        |
| Jun 30 2010                             | EUR 1      | 4.1458        |
| Jul 30 2010                             | EUR 1      | 4.0080        |
| Aug 31 2010                             | EUR 1      | 4.0038        |
| Sep 30 2010                             | EUR 1      | 3.9870        |
| Oct 31 2010                             | EUR 1      | 3.9944        |
| Nov 30 2010                             | EUR 1      | 4.0734        |
| Dec 31 2010                             | EUR 1      | 3.9603        |
| EUR exchange rate at the end of Q4 2010 |            | <b>3.9603</b> |
| Arithmetic mean for 2010                |            | <b>4.0044</b> |

**PLN/RUB exchange rates applied to translate the financial data of subsidiary undertakings Pfleiderer OOO of Russia and Pfleiderer MDF OOO of Russia:**

| <b>Date</b>                             | <b>RUB</b> | <b>PLN</b>    |
|---|------------|---------------|
| Jan 29 2010                             | RUB 1      | 0.0957        |
| Feb 26 2010                             | RUB 1      | 0.0975        |
| Mar 31 2010                             | RUB 1      | 0.0973        |
| Apr 30 2010                             | RUB 1      | 0.1007        |
| May 31 2010                             | RUB 1      | 0.1077        |
| Jun 30 2010                             | RUB 1      | 0.1086        |
| Jul 30 2010                             | RUB 1      | 0.1016        |
| Aug 31 2010                             | RUB 1      | 0.1023        |
| Sep 30 2010                             | RUB 1      | 0.0956        |
| Oct 31 2010                             | RUB 1      | 0.0937        |
| Nov 30 2010                             | RUB 1      | 0.0997        |
| Dec 31 2010                             | RUB 1      | 0.0970        |
| RUB exchange rate at the end of Q4 2010 |            | <b>0.0970</b> |
| Arithmetic mean for 2010                |            | <b>0.0998</b> |

**Condensed separate financial statements of Pfleiderer Grajewo S.A., the Parent Undertaking,  
prepared in accordance with IFRS**

**Separate statement of financial position as at December 31st 2010 (PLN '000)**

|   |   | <b>Dec 31 2010</b> | <b>Sep 30 2010</b> | <b>Dec 31 2009</b> | <b>Sep 30 2009</b> |
|---|---|--------------------|--------------------|--------------------|--------------------|
| <b>Assets</b>   |   |                    |                    |                    |                    |
| Property, plant and equipment                             |   | 115,972            | 119,580            | 133,530            | 139,482            |
| Intangible assets   |   | 3,208              | 2,879              | 4,257              | 4,506              |
| Investments in related undertakings                       |   | 790,134            | 790,321            | 791,169            | 791,970            |
| Other non-current financial assets                        |   | 10                 | 10                 | 10                 | 10                 |
| Deferred tax assets                                       |   | 2,110              | 2,950              | 1,245              | 0                  |
| Non-current loans advanced to related undertakings        |   | 383,387            | 345,968            | 316,631            | 288,481            |
| <b>Non-current assets</b>                                 |   | <b>1,294,821</b>   | <b>1,261,708</b>   | <b>1,246,842</b>   | <b>1,224,449</b>   |
| Inventories   |   | 50,923             | 59,837             | 42,574             | 43,940             |
| Trade and other receivables                               | 1 | 132,965            | 148,036            | 134,190            | 127,816            |
| Cash and cash equivalents                                 |   | 839                | 1,708              | 4,864              | 5,004              |
| Current loans advanced to related undertakings            |   | 0                  | 25,658             | 0                  | 0                  |
| Currency forwards   |   | 589                | 988                | 0                  | 0                  |
| <b>Current assets</b>                                     |   | <b>185,316</b>     | <b>236,227</b>     | <b>181,628</b>     | <b>176,760</b>     |
| <b>Total assets</b>                                       |   | <b>1,480,137</b>   | <b>1,497,935</b>   | <b>1,428,470</b>   | <b>1,401,209</b>   |
| <b>Equity</b>   |   |                    |                    |                    |                    |
| Share capital   |   | 16,376             | 16,376             | 16,376             | 16,376             |
| Share premium account                                     |   | 289,806            | 289,806            | 289,806            | 289,806            |
| Statutory reserve funds                                   |   | 153,664            | 153,682            | 133,471            | 133,471            |
| Valuation of forward contracts                            |   | 589                | 988                | 0                  | 269                |
| Retained earnings (deficit)                               |   | 24,377             | 25,758             | 43,293             | 46,343             |
| <b>Total equity</b>                                       |   | <b>484,812</b>     | <b>486,610</b>     | <b>482,946</b>     | <b>486,265</b>     |
| <b>Liabilities</b>  |   |                    |                    |                    |                    |
| Loans and borrowings                                      |   | 563,435            | 585,016            | 33,955             | 427,805            |
| Employee benefits payable                                 |   | 4,405              | 3,888              | 3,888              | 3,845              |
| Deferred tax liabilities                                  |   | 0                  | 0                  | 0                  | 295                |
| <b>Non-current liabilities</b>                            |   | <b>567,840</b>     | <b>588,904</b>     | <b>37,843</b>      | <b>431,945</b>     |
| Loans and borrowings                                      |   | 30,262             | 24,382             | 568,483            | 55,281             |
| Liabilities to related undertakings under debt securities |   | 293,017            | 286,952            | 262,884            | 325,084            |
| Trade and other payables                                  | 2 | 95,831             | 103,984            | 68,375             | 94,401             |
| Employee benefits payable                                 |   | 8,375              | 7,103              | 7,939              | 8,233              |
| <b>Current liabilities</b>                                |   | <b>427,485</b>     | <b>422,421</b>     | <b>907,681</b>     | <b>482,999</b>     |
| <b>Total liabilities</b>                                  |   | <b>995,325</b>     | <b>1,011,325</b>   | <b>945,524</b>     | <b>914,944</b>     |
| <b>Total equity and liabilities</b>                       |   | <b>1,480,137</b>   | <b>1,497,935</b>   | <b>1,428,470</b>   | <b>1,401,209</b>   |

| <b>OFF-BALANCE-SHEET<br/>ITEMS</b>   | Dec 31 2010<br>end of Q4 2010<br>(PLN '000) | Sep 30 2010<br>end of Q3 2010<br>(PLN '000) | Dec 31 2009<br>end of Q4 2009<br>(PLN '000) | Sep 30 2009<br>end of Q3 2009<br>(PLN '000) |
|--------------------------------------|---|---|---|---|
| Contingent liabilities               | 95,009                                      | 114,783                                     | 152,441                                     | 174,146                                     |
| To other undertakings,<br>including: | 95,009                                      | 114,783                                     | 152,441                                     | 174,146                                     |
| - guarantees and sureties<br>issued  | 95,009                                      | 114,783                                     | 152,441                                     | 174,146                                     |
| <b>Total off-balance-sheet items</b> | <b>95,009</b>                               | <b>114,783</b>                              | <b>152,441</b>                              | <b>174,146</b>                              |

**Separate statement of comprehensive income for the period January 1st–December 31st 2010  
(PLN '000)**

|  | <b>Total<br/>Jan 1 –<br/>Dec 31 2010</b> | <b>Total<br/>Jan 1 –<br/>Dec 31 2009</b> |
|--|--|--|
|  | Continuing<br>operations                 | Continuing<br>operations                 |
| Sales revenue  | 616,183                                  | 547,722                                  |
| Cost of sales  | (532,999)                                | (463,550)                                |
| <b>Gross profit</b>  | <b>83,184</b>                            | <b>84,172</b>                            |
| Other income   | 1,867                                    | 2,703                                    |
| Selling costs  | (24,694)                                 | (21,311)                                 |
| General and administrative expenses  | (34,497)                                 | (40,396)                                 |
| Other expenses   | (1,921)                                  | (3,026)                                  |
| <b>Operating profit</b>  | <b>23,939</b>                            | <b>22,142</b>                            |
| Finance income   | 43,409                                   | 82,949                                   |
| Finance expenses   | (66,919)                                 | (88,298)                                 |
| <b>Net finance income/(expenses)</b>   | <b>(23,510)</b>                          | <b>(5,349)</b>                           |
| <b>Profit before tax</b>   | <b>429</b>                               | <b>16,793</b>                            |
| Corporate income tax   | 865                                      | 3,418                                    |
| <b>Net profit</b>  | <b>1,294</b>                             | <b>20,211</b>                            |
| <b>Other comprehensive income</b>  |  |  |
| Effective portion of loss on fair-value<br>measurement of hedging instruments, including<br>corporate income tax | 0  | 0  |
| <b>Total comprehensive income for period</b>   | <b>1,294</b>                             | <b>20,211</b>                            |

**Separate statement of changes in equity for the period January 1st 2009–December 31st 2010 (PLN ‘000)**

|  | Share capital | Share premium account | Statutory reserve funds | Valuation of forward contracts | Retained earnings | Total          |
|--|---------------|-----------------------|-------------------------|--------------------------------|-------------------|----------------|
| <b>Balance as at Jan 1 2009</b>                                | <b>16,376</b> | <b>289,806</b>        | <b>89,127</b>           | <b>0</b>                       | <b>67,426</b>     | <b>462,735</b> |
| Net profit   | 0             | 0                     | 0                       |                                | 20,211            | 20,211         |
| Valuation of forward contracts                                 |               |                       |                         | 0                              |                   |                |
| <i>Total income and expenses for period</i>                    | 0             | 0                     | 0                       | 0                              | 20,211            | 20,211         |
| Transfer of part of 2008 net profit to statutory reserve funds | 0             | 0                     | 44,344                  | 0                              | (44,344)          | 0              |
| Dividend   | 0             | 0                     | 0                       | 0                              | 0                 | 0              |
| <b>Balance as at Dec 31 2009</b>                               | <b>16,376</b> | <b>289,806</b>        | <b>133,471</b>          | <b>0</b>                       | <b>43,293</b>     | <b>482,946</b> |
| <b>Balance as at Jan 1 2010</b>                                | <b>16,376</b> | <b>289,806</b>        | <b>133,471</b>          | <b>0</b>                       | <b>43,293</b>     | <b>482,946</b> |
| <b>Comprehensive income for period</b>                         |               |                       |                         |                                |                   |                |
| Net profit   | 0             | 0                     | 0                       | 0                              | 1,295             | 1,295          |
| Valuation of forward contracts                                 | 0             | 0                     | 0                       | 589                            | 0                 | 0              |
| <b>Comprehensive income for period</b>                         | 0             | 0                     | 0                       | 589                            | 1,295             | 1,884          |
| <b>Transactions with owners recognised in equity</b>           |               |                       |                         |                                |                   |                |
| Disposal of land   | 0             | 0                     | (18)                    | 0                              | 0                 | (18)           |
| Transfer of part of 2009 net profit to statutory reserve funds | 0             | 0                     | 20,211                  | 0                              | (20,211)          | 0              |
| <b>Transactions with owners recognised in equity</b>           | 0             | 0                     | 20,193                  | 0                              | (20,211)          | (18)           |
| <b>Balance as at Dec 31 2010</b>                               | <b>16,376</b> | <b>289,806</b>        | <b>153,664</b>          | <b>589</b>                     | <b>24,377</b>     | <b>484,812</b> |

**Separate statement of cash flows for the period January 1st–December 31st 2010 (PLN ‘000)**

|  | Note | Jan 1 –<br>Dec 31 2010 | Jan 1 –<br>Dec 31 2009 |
|--|------|------------------------|------------------------|
| <b>Cash flows from operating activities</b>                                  |      |                        |                        |
| <b>Net profit</b>  |      | <b>1,294</b>           | <b>20,211</b>          |
| Adjustments  |      | 61,226                 | (83,583)               |
| Depreciation and amortisation  |      | 19,898                 | 28,521                 |
| Foreign exchange gains/losses  |      | (2,491)                | 33,194                 |
| Dividend and interest for period   |      | 25,574                 | (29,244)               |
| Gain/loss on disposal of intangible assets and property, plant and equipment |      | (30)                   | (186)                  |
| Deferred tax asset/liabilities   |      | (865)                  | (3,418)                |
| Change in receivables  |      | 1,225                  | (42,351)               |
| Change in inventories  |      | (8,349)                | 7,331                  |
| Change in liabilities  |      | 27,416                 | (37,610)               |
| Change in employee benefits payable  |      | 953                    | (1,874)                |
| Gains on forward contracts   |      | (2,105)                | (37,946)               |
| <b>Cash provided by/(used in) operating activities</b>                       |      | <b>62,520</b>          | <b>(63,372)</b>        |
| Interest received  |      | 114                    | 302                    |
| Interest paid  |      | (128)                  | (56)                   |
| Income tax paid  |      | 0                      | 12,169                 |
| <b>Net cash provided by/(used in) operating activities</b>                   |      | <b>62,506</b>          | <b>(50,957)</b>        |
| <b>Cash flows from investing activities</b>                                  |      |                        |                        |
| Sale of property, plant and equipment  |      | 68                     | 140                    |
| Interest received  |      | 0                      | 272                    |
| Dividend and other profit distributions                                      |      | 14,799                 | 38,943                 |
| Acquisition of intangible assets and property, plant and equipment           |      | (1,298)                | (2,596)                |
| Repayment of loans advanced  |      | 0                      | 31,884                 |
| Loans advanced   |      | (36,782)               | (168,815)              |
| Change resulting from valuation of forward contracts                         |      | 0                      | (13,963)               |
| <b>Net cash provided by/ (used in) investing activities</b>                  |      | <b>(23,213)</b>        | <b>(114,135)</b>       |
| <b>Cash flows from financing activities</b>                                  |      |                        |                        |
| Repayment of loans and borrowings  |      | (568,483)              | 0                      |
| Increase in loans and borrowings   |      | 526,007                | 343,233                |
| Redemption of debt securities  |      | (1,108,832)            | (1,095,272)            |
| Issue of debt securities   |      | 1,173,453              | 966,762                |
| Interest paid  |      | (65,463)               | (48,357)               |
| <b>Cash provided by/(used in) financing activities</b>                       |      | <b>(43,318)</b>        | <b>166,366</b>         |
| Change in cash   |      | (4,025)                | 1,274                  |
| Cash at beginning of period  |      | 4,864                  | 3,590                  |
| <b>Cash at end of period</b>   |      | <b>839</b>             | <b>4,864</b>           |

**Supplementary information to the condensed separate financial statements of Pfleiderer Grajewo S.A., the Parent Undertaking, prepared in accordance with IFRS**
**1. Notes to the separate balance sheet**
**Note 1 – Trade and other receivables (PLN '000)**

|   | <b>Dec 31<br/>2010</b> | <b>Sep 30<br/>2010</b> | <b>Dec 31<br/>2009</b> | <b>Sep 30<br/>2009</b> |
|---|------------------------|------------------------|------------------------|------------------------|
| Trade receivables, other than from related undertakings | 17,134                 | 24,210                 | 16,721                 | 22,291                 |
| Trade receivables from related undertakings             | 39,503                 | 41,122                 | 40,672                 | 30,488                 |
| Current prepayments and accrued income                  | 1,872                  | 3,702                  | 1,668                  | 2,880                  |
| Current VAT receivables                                 | 5,145                  | 9,058                  | 7,202                  | 3,732                  |
| Other receivables                                       | 69,311                 | 69,944                 | 67,927                 | 68,425                 |
| <b>Total</b>  | <b>132,965</b>         | <b>148,036</b>         | <b>134,190</b>         | <b>127,816</b>         |

**Note 2 – Trade and other payables (PLN '000)**

|  | <b>Dec 31<br/>2010</b> | <b>Sep 30<br/>2010</b> | <b>Dec 31<br/>2009</b> | <b>Sep 30<br/>2009</b> |
|--|------------------------|------------------------|------------------------|------------------------|
| Trade payables                         | 48,240                 | 63,045                 | 28,871                 | 46,443                 |
| Liabilities to related undertakings    | 32,963                 | 27,128                 | 12,164                 | 15,574                 |
| Liabilities under factoring agreements | 9,848                  | 9,031                  | 23,363                 | 18,928                 |
| Liabilities under investment supplies  | 426                    | 296                    | 385                    | 535                    |
| Liabilities under forward contracts    | 0                      | 0                      | 0                      | 7,666                  |
| Other liabilities                      | 4,354                  | 4,484                  | 3,592                  | 5,255                  |
| <b>Total</b>                           | <b>95,831</b>          | <b>103,984</b>         | <b>68,375</b>          | <b>94,401</b>          |