THE PFLEIDERER GRAJEWO GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 1ST - JUNE 30TH 2011

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MANAGEMENT BOARD'S REPRESENTATION

Pursuant to the requirements laid down in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and 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. of 2009, No. 33, item 259), the Management Board of Pfleiderer Grajewo S.A., the parent undertaking, represents that to the best of its knowledge the interim condensed consolidated financial statements and the interim condensed separate financial statements for the period January 1st 2011-June 30th 2011 and the comparative data have been prepared in compliance with the applicable accounting standards and give a true, accurate and fair view of the financial position and performance respectively of the Pfleiderer Grajewo Group and Pfleiderer Grajewo S.A., and that the interim Directors' Report on the operations of the Pfleiderer Grajewo Group and the interim Directors' Report on the operations of Pfleiderer Grajewo S.A. give a fair view of the development, achievements and standing of the Group and of Pfleiderer Grajewo S.A., including a description of the key risks and threats.

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

Wojciech Gątkiewicz
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Radosław Wierzbicki
Member of the Management Board, Chief Operating Officer

Grajewo, August 17th 2011

PFLEIDERER GRAJEWO GROUP

(all figures in PLN '000)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated statement of comprehensive income

	Note	Jan 1– Jun 30 2011 Continuing operations unaudited	Jan 1– Jun 30 2010 Continuing operations unaudited	Apr 1– Jun 30 2011 Continuing operations unaudited	Apr 1– Jun 30 2010 Continuing operations unaudited
Sales revenue	1	799,132	620,604,	396,215	314,774
Cost of sales	3	(652,283)	(520,414)	(321,144)	(256,205)
Gross profit		**146,849**	**100,190**	**75,071**	**58,569**
Other operating income		2,968	4,423	1,245	1,623
Selling costs	3	(50,417)	(39,693)	(24,536)	(19,750)
General and administrative expenses	3	(41,289)	(56,971)	(20,705)	(27,076)
Other operating expenses		(12,440)	(9,954)	(7,302)	(2,849)
Operating profit/ (loss)		**45,671**	**(2,005)**	**23,773**	**10,517**
Finance income	4	4,126	27,208	2,081	11,023
Finance expenses	4	(48,377)	(43,366)	(27,473)	(23,082)
Net finance expenses		**(44,251)**	**(16,158)**	**(25,392)**	**(12,059)**
Profit/ (loss) before tax		**1,420**	**(18,163)**	**(1,619)**	**(1,542)**
Corporate income tax	6	(172)	786	2,596	(1,591)
Net profit/ (loss)		**1,248**	**(17,377)**	**977**	**(3,133)**
Other comprehensive income					
Exchange differences on translation of subsidiary undertakings		2,450	22,387	(931)	17,600
Exchange differences on net investments in subsidiary undertakings		3,834	30,298	(1,579)	25,252
Effective portion of changes in fair-value measurement of hedging instruments		229	0	421	0
Total other comprehensive income for period		**6,513**	**52,685**	**(2,089)**	**42,852**
Total comprehensive income for period		**7,761**	**35,308**	**(1,112)**	**39,719**
Net profit/ (loss) attributable to:					
Owners of the parent		3,714	(10,476)	1,627	933
Non-controlling interests		(2,466)	(6,901)	(650)	(4,066)
Net loss		**1 248**	**(17,377)**	**977**	**(3,133)**
Total comprehensive income for period attributable to:					
Owners of the parent		9 676	36,422	(229)	38,998
Non-controlling interests		(1,915)	(1,114)	(883)	721
Total comprehensive income for period		**7 761**	**35,308**	**(1 112)**	**39,719**
Basic earnings/ (loss) per share (PLN)		0.07	(0.21)	0.03	0.02
Diluted earnings/ (loss) per share (PLN)		0.07	(0.21)	0.03	0.02

PFLEIDERER GRAJEWO GROUP

(all figures in PLN '000)

Interim condensed consolidated statement of changes in equity for the period January 1st–June 30th 2011

	Share capital	Share premium account	Statutory reserve funds	Revaluation reserve	Exchange differences on translation of subsidiary undertakings	Exchange differences on net investments in subsidiary undertakings	Cash flow hedges	Retained earnings	Total	Non-controlling interests	Total
Balance as at Jan 1 2011	**16,376**	**289,806**	**153,711**	**619**	**(14,829)**	**(15,349)**	**589**	**1,978**	**432,901**	**63,273**	**496,174**
Comprehensive income for period											
Net loss	0	0	0	0	0	0	0	3,714	3,714	(2,466)	1,248
Other comprehensive income											
Exchange differences on translation of subsidiary undertakings	0	0	0	0	1,899	0	0	0	1,899	551	2,450
Exchange differences on net investments in subsidiary undertakings	0	0	0	0	0	3,834	0	0	3,834	0	3,834
Effective portion of gain on fair-value measurement of hedging instruments	0	0	0	0	0	0	229	0	229	0	229
Total other comprehensive income	0	0	0	0	1,899	3,834	229	0	5,962	551	6,513
Total comprehensive income for period	**0**	**0**	**0**	**0**	**1,899**	**3,834**	**229**	**3,714**	**9,676**	**(1,915)**	**7,761**
Transactions with owners recognised in equity											
Issue of shares of Pfleiderer MDF Sp. z o.o.	0	0	0	0	0	0	0	0	0	17,639	17,639
Transfer of 2010 net profit to statutory reserve funds	0	0	1,294	0	0	0	0	(1,294)	0	0	0
Transactions with owners recognised in equity	0	0	1,294	0	0	0	0	(1,294)	0	17,639	17,639
Balance as at Jun 30 2011 (unaudited)	**16,376**	**289,806**	**155,005**	**619**	**(12,930)**	**(11,515)**	**818**	**4,398**	**442,577**	**78,997**	**521,574**

PFLEIDERER GRAJEWO GROUP

(all figures in PLN ‘000)

period January 1st–June 30th 2010

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

PFLEIDERER GRAJEWO GROUP

(all figures in PLN '000)

Interim condensed consolidated statement of financial position

	note	Jun 30 2011 unaudited	Dec 30 2010 unaudited
Assets			
Property, plant and equipment	5	1,097,664	1,122,139
Intangible assets		3,900	4,704
Goodwill		107,829	107,829
Investments in related undertakings		52	52
Other non-current financial assets		31	10
Investment properties		4,300	4,300
Deferred tax assets		17,653	15,736
Prepayments for property, plant and equipment		222,629	217,403
Government assistance receivable		14,549	14,549
Non-current assets		**1,468,607**	**1,486,722**
Inventories		218,859	181,487
Income tax receivable		77	724
Trade and other receivables	7	157,066	163,057
Other current financial assets		0	24
Cash and cash equivalents		35,254	19,868
Currency forwards		818	589
Current assets		**412,074**	**365,749**
Total assets		**1,880,681**	**1,852,471**
Equity	8		
Share capital		16,376	16,376
Share premium account		289,806	289,806
Statutory reserve funds		155,005	153,711
Revaluation reserve		619	619
Cash flow hedges		818	589
Exchange differences on translation of subsidiary undertakings		(12,930)	(14,829)
Exchange differences on net investments in subsidiary undertakings		(11,515)	(15,349)
Retained earnings		4,398	1,978
Equity (attributable to owners of the parent)		**442,577**	**432,901**
Minority interests		**78,997**	**63,273**
Total equity		**521,574**	**496,174**
Liabilities			
Loans and borrowings	9	877,854	994,038
Finance lease liabilities		43	87
Employee benefit obligations		6,013	6,013
Provisions		619	640
Deferred tax liabilities		5,475	5,535
Deferred income from government assistance		25,257	25,851
Non-current liabilities		**915,261**	**1,032,164**
Loans and borrowings	9	196,840	62,870
Finance lease liabilities		108	142
Income tax payable		1,112	0
Trade and other payables	10	227,322	242,912
Employee benefit obligations		17,276	17,021
Deferred income from government assistance		1,188	1,188
Current liabilities		**443,846**	**324,133**
Total liabilities		**1,359,107**	**1,356,297**
Total equity and liabilities		**1,880,681**	**1,852,471**

Interim condensed consolidated statement of cash flows

	Jan 1– Jun 30 2011 unaudited	Jan 1– Jun 30 2010 unaudited
Cash flows from operating activities		
Net profit/ (loss)	**1,248**	**(17,377)**
Adjustments	37,407	17,703
Amortisation	38,598	60,020
Foreign exchange gains	(1,540)	(18,605)
Interest for period	46,554	41,006
Gain/ (loss) from investing activities	(51)	447
Income tax expense recognised in profit or loss of current period	172	(786)
Deferred income tax recognised in equity	899	7,107
Change in trade and other receivables	5,991	(34,380)
Change in inventories	(37,372)	(10,711)
Change in trade and other payables	(14,652)	(16,829)
Change in employee benefit obligations	255	(777)
Change in provisions	(21)	76
Amortisation of government assistance	(594)	(2,127)
Result on forward contracts	813	0
Change in foreign exchange differences on consolidation	(1,645)	(6,738)
Cash flows from operating activities	**38,655**	**326**
Interest received	167	19
Income tax (paid)/ received	(1,289)	1,448
Net cash provided by/ (used in) operating activities	**37,533**	**1,793**
Cash flows from investing activities		
Disposal of non-current assets	52	482
Other cash provided by financial assets	3	136
Acquisition of property, plant and equipment and intangible assets	(8,770)	(17,037)
Net cash provided by/ (used in) investing activities	**(8,715)**	**(16,419)**
Cash flows from financing activities		
Repayment of loans and borrowings	(33,163)	(598,663)
Increase in loans and borrowings	60,874	674,997
Interest paid	(41,143)	(33,901)
Net cash provided by/(used in) financing activities	**(13,432)**	**42,433**
Total net cash flow	**15,386**	**27,807**
Change in cash	15,386	27,807
Cash at beginning of period	19,868	30,864
Cash at end of period	**35,254**	**58,671**

Supplementary notes to the interim condensed consolidated financial statements

1. Overview

The parent undertaking of the Pfleiderer Grajewo Group is a publicly traded joint-stock company registered in Poland.

The parent undertaking, under its former name of Zakłady Płyt Wiórowych S.A. of Grajewo, was originally registered on July 1st 1994 by the District Court, Commercial Court of Łomża, in the Commercial Register in Section B, under entry No. 270. Subsequently, on May 9th 2001, it was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On September 18th 2002, the Company's Management Board received the decision of the District Court of Białystok on entering the Company's new name, Pfleiderer Grajewo S.A., in the National Court Register.

Pfleiderer Grajewo S.A. has its registered office at ul. Wiórowa 1 in Grajewo, Poland.

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

These interim condensed consolidated financial statements of the Pfleiderer Grajewo Group for the period January 1st-June 30th 2011 were approved by the Parent Undertaking's Management Board on August 17th 2011.

2. Structure of the Group

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

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

PFLEIDERER GRAJEWO GROUP
Supplementary notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2011

(all figures in PLN '000)

Structure of the Group as at June 30th 2011:

These interim consolidated financial statements of the Pfleiderer Grajewo Group comprise the financial data of Pfleiderer Grajewo S.A., the parent undertaking, and of its subsidiary undertakings: 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. (in liquidation).

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

*Parent undertaking Pfleiderer Grajewo S.A. holds a call option allowing it to repurchase the shares held by the non-controlling shareholder at any time prior to the agreed date. The non-controlling shareholder holds a put option enabling it to sell the shares to Pfleiderer Grajewo S.A. in the event of a default under the financing agreements executed between the parent undertaking, Pfleiderer OOO and the non-controlling shareholder, and if there is a risk that the shares in Pfleiderer OOO will not be repurchased by the agreed deadline. Therefore, from the parent undertaking's point of view, Pfleiderer OOO is treated as a subsidiary undertaking wholly-owned by Pfleiderer Grajewo S.A.

Changes in the Group's structure in the reporting period

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

Subsidiary undertakings of the Pfleiderer Grajewo Group

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

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

Pfleiderer OOO - a limited liability company 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 Region under the Ministry of Customs and Taxes of the Russian Federation.

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

Silekol Sp. z o.o. – 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 nr 30 K, 47-220 Kędzierzyn-Koźle, Poland

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

Industry Identification Number (REGON):	330994545
Tax Identification Number (NIP):	719-13-99-317
Registered office:	ul. Wiórowa nr 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 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. (in liquidation) - entered in the National Court Register by the District Court of Białystok, Commercial Division of the National Court Register, under No. KRS 0000237233, on June 29th 2005.

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

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

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

The business of Pfleiderer Grajewo S.A., the parent undertaking, consists in:

- manufacture and veneering of wood and wood-based products,
- paper finishing,
- trade at home and abroad.

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

Pfleiderer Prospan S.A.

- manufacture of melamine-faced and raw chipboards and other wood and wood-based products,
- paper finishing,
- trade at home and abroad,
- generation and distribution of heat.

Pfleiderer OOO

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

Pfleiderer MDF OOO

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

Silekol Sp. z o.o.

Silekol Sp. z o.o. provides the parent undertaking and its other subsidiary undertakings with adhesives for the manufacture of chipboards.

- 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.

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

Jura Polska Sp. z o.o.

- transport,
- road transport of goods using specialised vehicles,
- road transport of goods using universal vehicles,
- lease of trucks,
- wholesale of building materials and sanitary fixtures and fittings.

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

Unifloor Sp. z o.o. is currently in liquidation.

Pfleiderer Services Sp. z o.o.

The company suspended its operations.

3. Information on the composition of the Management and Supervisory Boards of the parent undertaking and changes therein in the reporting period

As at June 30th 2011, the Management Board of Pfleiderer Grajewo S.A. was composed of:

1.	Wojciech Gątkiewicz	President of the Management Board
2.	Rafał Karcz	Member of the Management Board
3.	Dariusz Tomaszewski	Member of the Management Board
4.	Radosław Wierzbicki	Member of the Management Board

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

Composition of the Supervisory Board as at June 30th 2011:

1.	Paweł Wyrzykowski	- Chairman of the Supervisory Board
2.	Hans H. Overdiek	- Member of the Supervisory Board
3.	Michael Wolff	- Member of the Supervisory Board
4.	Heiko Greave	- Member of the Supervisory Board
5.	Jan Woźniak	- Member of the Supervisory Board

All duties of an audit committee are performed by the Supervisory Board as a whole.

4. Information on the periods for which the interim condensed consolidated financial statements and comparable data are presented

These interim condensed consolidated financial statements have been prepared for the period from January 1st to June 30th 2011, and the comparable financial data for the period from January 1st to June 30th 2010.

5. Basis of preparation

a) Compliance statement

These interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard 34 *Interim Financial Reporting*.
These financial statements do not include all the information which is required in the case of the full annual financial statements and therefore they should be analysed in conjunction with the Group's annual consolidated financial statements for the financial year ended December 31st 2010.

The International Financial Recording Standards endorsed by the European Union ("EU IFRS") comprise all the International Accounting Standards, International Financial Recording Standards and the related Interpretations, with the exception of the Standards and Interpretations listed below which are awaiting approval by the European Union, and the Standards and Interpretations which have been approved but have not yet taken effect.

The Group has not used the possibility of early application of the new Standards and Interpretations which have already been published and endorsed by the European Union, but are effective for annual periods starting on or after January 1st 2011.

Moreover, as at the balance-sheet date the Group has not completed its assessment of the effect that the new Standards and Interpretations taking effect after the balance-sheet date will have on the consolidated financial statements for the period in which they are applied for the first time.

Standards and Interpretations endorsed by the European Union

Not applicable.

Standards and Interpretations awaiting endorsement by the EU

Standards and Interpretations awaiting endorsement by the EU	**Anticipated change in accounting policies**	**Effect on financial statements (if any)**	**Effective for periods beginning on or after:**
Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	The Amendment provides for an additional exemption to IFRS 1 for entities which have been subject to severe hyperinflation, which may be applied at the date of their transition to IFRS. The exemption allows an entity to measure assets and liabilities held before the functional currency normalisation date at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.	The Amendment is not expected to have a material effect on the Group's financial statements.	July 1st 2011
Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*	The Amendment requires disclosure of information which will enable users of the financial statements: • to understand the relationship between a transferred financial asset which was not derecognised in its entirety and associated financial liabilities; and • to evaluate the nature of, risks associated with and extent of the entity's continuing involvement in the derecognised financial asset. The Amendment defines "continuing involvement"	It is expected that on the adoption of IFRS 7 the number of required disclosures in the Group's financial statements will increase. OR The Group does not expect the Amendment to IFRS 7 to have a material effect on its financial statements, given the nature of the Group's business and types of financial assets held.	July 1st 2011

	for the purpose of application of the disclosure requirements.		
IFRS 9 *Financial Instruments*	The new Standard replaces the guidelines set out in IAS 39 *Financial Instruments: Recognition and Measurement* concerning the classification and measurement of financial assets. The new Standard eliminates certain categories provided for in IAS 39, namely: held to maturity, available for sale, and loans and receivables. Under the new Standard, on initial recognition financial assets will be classified into one of the following two categories: • financial assets measured at amortised cost; or • financial assets measured at fair value. A financial asset that meets the following two conditions can be measured at amortised cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on the fair-value measurement of financial assets are recognised in the current period's profit or loss, unless the investment in an equity instrument is not held for trading. Under IFRS 9, an entity may elect to initially measure such financial instruments at fair value through other comprehensive income. Such election is irrevocable and may be made with respect to each such instrument separately. Amounts recognised under other comprehensive income may not be	It is anticipated that on its first-time adoption the new Standard will have a material effect on the Group's financial statements, as it will have to be applied retrospectively. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. OR The Group does not expect IFRS 9 to have a material effect on its financial statements. The Group anticipates that, given the nature of its business and types of financial assets held, the methods of classification and measurement of financial assets will not change following the adoption of IFRS 9.	January 1st 2013

	reclassified to profit or loss in future periods.		
Amendments to IFRS 9 *Financial Instruments* (published in 2010)	The Amendments to IFRS 9 of 2010 revise the guidelines set out in IAS 39 *Financial Instruments: Classification and Measurement* concerning the classification and measurement of financial liabilities and derecognition of financial assets and liabilities. The Standard retains almost all the existing requirements of IAS 39 regarding the classification and measurement of financial liabilities and derecognition of financial assets and liabilities. The Standard requires that, in the case of a financial liability designated on initial recognition as measured at fair value through profit or loss, any change in the fair value of the liability attributable to changes in the liability's credit risk must be presented as other comprehensive income. The remaining portion of the change in the fair value is recognised in the current period's profit or loss. If the adoption of this requirement does not result in matching of income and expenses, then the overall change in the fair value is recognised in the current period's profit or loss. Amounts recognised under other comprehensive income may not be reclassified to profit or loss in future periods. However, they may be reclassified to equity. Pursuant to IFRS 9, related financial derivatives which have to be settled through delivery of unlisted equity instruments the value of which may not be reliably determined should be measured at fair value.	It is anticipated that on its first-time adoption the new Standard will have a material effect on the Group's financial statements, as it will have to be applied retrospectively. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. The Group has not yet made a decision on the implementation date of IFRS 9. OR The Group does not expect IFRS 9 (2010) to have a material effect on its financial statements. The Group anticipates that, given the nature of its business and types of financial assets held, the methods of classification and measurement of financial liabilities will not change following the adoption of IFRS 9.	January 1st 2013
IFRS 10 *Consolidated*	IFRS 10 provides for a new single model to be	If the Group applies IFRS 10 as of ..., X as the Group's investee	January 1st 2013

Financial Statements	applied in the control analysis for all investees, including entities that – being SPVs – are currently within the scope of SIC 12. IFRS 10 introduces new requirements regarding the assessment of control, different from the existing requirements of IAS 27 (2008). Under the new control model, an investor controls an investee if the investor (1) is exposed, or has rights, to variable returns from its involvement with the investee, (2) has the ability to influence those returns through its power over the investee, and (3) there exists a link between that power and the returns. In addition, the new Standard sets out certain disclosure requirements, as well as requirements related to the preparation of consolidated financial statements. The requirements were transferred from IAS 27 (2008).	would be accounted for as a subsidiary undertaking in the Group's consolidated financial statements. As at ... and ... this would result in ... (describe the effect). OR It is anticipated that on first-time adoption of the new Standard its effect will depend on facts and circumstances related specifically to the Group's investees. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. OR The Group does not expect the new Standard to have any effect on its financial statements as the assessment of control over investees made in accordance with the new Standard is not expected to result in a change of the Group's view of its control over the entities.	
IFRS 11 *Joint Arrangements*	IFRS 11 *Joint Arrangements* replaces and supersedes IAS 31 *Interests in Joint Ventures* IFRS 11 does not introduce any material changes to the general definition of a joint arrangement, although the definition of control, and therefore indirectly the definition of joint control, have changed in connection with IFRS 10. Under the new Standard, joint arrangements have been divided into two categories, each having its own accounting model. • A joint operation is a joint arrangement whereby the jointly controlling parties, known as joint operators, have rights to the assets and obligations with respect to the liabilities relating to the arrangement. • A joint venture is a joint arrangement whereby the jointly controlling parties, known as joint	If the Group adopted the new standard as of...., X as a joint arrangement would be accounted for using the equity method instead of the proportional consolidation method. As at ... and ... this would result in ... (describe the effect). OR It is anticipated that on first-time adoption of the new Standard its effect will depend on facts and circumstances related specifically to the Group's joint arrangements. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. OR The Group does not expect the new Standard to have an effect on its financial statements, as the assessment of joint arrangements in line with the new Standard is not expected to change the method in which the existing joint arrangements are accounted for.	January 1st 2013

	venturers, have rights to the net assets of the arrangement. IFRS 11 excludes jointly-controlled entities from the scope of IAS 31 in situations where, although they are separate entities, their separation is ineffective in certain ways. Such arrangements are treated similarly to jointly-controlled assets/operations (recognition of particular items of assets and liabilities) and are now referred to as joint operations. As regards other jointly-controlled entities included within the scope of IAS 31 (now referred to as joint ventures), the equity method should be applied in all cases; a choice between the equity method and proportional consolidation is no longer possible.	OR The Group does not expect IFRS 11 to have a material effect on its financial statements, as the Group is not involved in any joint arrangements.	
IFRS 12 *Disclosures of Interest in Other Entities*	IFRS 12 introduces additional disclosure requirements concerning significant judgements and assumptions applied while determining the type of interest in an entity, arrangement, subsidiaries, joint arrangements, associates and/or non-consolidated structured entities.	The number of required disclosures concerning interests in other entities is expected to increase following the adoption of IFRS 12. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. OR The Group does not expect IFRS 12 to have a material effect on its financial statements.	January 1st 2013
IFRS *13 Fair Value Measurement*	Under IFRS 13, the guidelines on fair-value measurement set forth in different standards will be replaced by a single source of guidance on fair-value measurement. The new Standard defines fair value, establishes a framework for fair-value measurement and lays down disclosure requirements relating to fair-value measurements. IFRS 13 clarifies "how" to measure fair value if it is required or permitted by other standards. IFRS 13 does not introduce any new requirements concerning measurement of assets or liabilities at	Upon its first-time adoption, the new Standard is expected to have a material effect on fair-value disclosures included in the notes to the financial statements and on determination of the fair value of particular financial and non-financial assets. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. OR The Group does not expect IFRS 13 to have an effect on its financial statements, as the Management Board believes that the methods and assumptions applied for the purposes of fair-value	January 1st 2013

	fair value, nor does it exclude the practicability exceptions to fair value measurement that are currently provided for under certain standards. The Standard provides for detailed disclosure requirements which supplement the existing regime by adding disclosures made with a view to enabling users of financial statements to assess the methods and data used for fair-value measurement, and – as regards recurring fair-value measurements which rely on unavailable inputs – to assess the effect of such measurements on net profit or loss or other comprehensive income.	measurement are consistent with IFRS 13.	
Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*	The Amendment requires an entity to disclose the items of other comprehensive income which may be reclassified to profit or loss separately from those which will never be so reclassified. Consequently, an entity which recognises items of other comprehensive income before applicable tax effects will have to allocate the aggregate tax amounts to relevant items of other comprehensive income.	The Amendment is not expected to have a material effect on the Group's financial statements.	June 1st 2012
Amendments to IAS 12 *Taxes – Deferred Tax: Recovery of Underlying Assets*	The Amendment of 2010 introduces an exception to the existing principles of deferred tax measurement included in paragraph 52 of IAS 12, based on the recovery method. This exception concerns deferred tax on investment property measured using the fair-value model under IAS 40 by introducing the assumption that the carrying value of the assets will be recovered only through sale. Plans of the Management Board will be of no relevance, unless the investment property is *subject to depreciation* and is held as part of a business model the objective of which is to consume substantially all the economic benefits associated with a given asset during its life. This is the only	The effect of the first-time adoption of the Amendment will depend on the type of assets held and their fair value as at the day of the first-time adoption of the Standard. If the Group adopted the Amendment as of …, deferred tax liability would be reduced by PLN X and retained earnings as at … would increase by the same amount (of which PLN Y would be recognised as a reduction of income tax in the current period's profit and loss, and PLN Z would be recognised as an adjustment to retained earnings as at ...). OR The Group does not expect the Amendment to have a material effect on its financial statements as it will not result in any changes in the Group's accounting policies. The method of	January 1st 2012

	case in which the assumption may be rejected.	measurement of assets and liabilities associated with deferred tax on investment property measured at fair value under IAS 40 will remain unchanged. OR The above Amendment does not apply to the Group's financial statements as the Group did not hold any investment property measured using the fair-value model under IAS 40.	
Amended IAS 19 *Employee Benefits*	Actuarial gains and losses will be recognised directly under other comprehensive income. The Amendment will: • eliminate the corridor approach, which is why it is expected to have a material effect on entities currently applying that approach to recognise actuarial gains and losses; and • eliminate the ability to recognise all changes in liabilities under defined benefits and assets of employee benefit plans through profit or loss, which is currently permitted under IAS 19.	It is expected that the amendments relating to the return on assets of employee benefit plans recognised through profit or loss, calculated based on the rate used to discount liabilities under defined benefits, will reduce net profit/loss by ….. OR The Amendment is not expected to have a material effect on the Group's financial statements.	January 1st 2013
IAS 28 (amended in 2011) *Investments in Associates and Joint Ventures*	Some limited amendments were made to IAS 28: • *Associates and joint ventures held for sale.* IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* is applied to investments, or portions thereof, in an associate or joint venture which qualifies to be classified as held for sale. Equity method is applied to the retained portion of an investment not classified as held for sale until the portion of the investment held for sale is sold. Once the portion of the investment held for sale is sold, the retained portion of the investment is recognised using the equity method provided that the retained investment continues to be an	It is anticipated that on its first-time adoption the amended Standard will have a material effect on the financial statements. If the amended Standard was to be adopted as of ….., the carrying value of investments in undertakings valued with the equity method would increase/decrease by PLN X, finance expenses in the statement of comprehensive income for the period ending ..... would increase/decrease by PLN Y ….., and retained earnings as at ….. would increase/decrease by PLN Z, of which PLN ZA would be recognised as an increase/decrease of retained earnings as at ….., and PLN ZB would be recognised as an increase/decrease of finance expenses in the statement of comprehensive income for ….. OR It is anticipated that on its first-time adoption the amended	January 1st 2013

	investment in an associate or joint venture. • *Changes in investments held in associates or joint ventures.* Previously, IAS 28 (2008) and IAS 31 provided that loss of significant influence or joint control resulted in each case in the necessity to re-measure the retained interests, even if significant influence changed into joint control. Under IAS 28 (2011), in such cases the retained investments should not be re-measured.	Standard will have a material effect on the financial statements. However, prior to its first-time adoption, the Group is not able to assess the impact of the new Standard on the Group's financial statements. OR The Group does not expect the amended Standard to have a material effect on its financial statements as it holds no investments in associates or joint ventures which would be affected by the amendments.	

b) Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost convention, except with respect to financial derivatives and investment property, which have been measured at fair value.

c) Functional and presentation currency

In these interim condensed consolidated financial statements, all figures are presented in the złoty and rounded to the nearest thousand, unless stated otherwise.

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

d) Estimates and judgements

The preparation of financial statements in accordance with the EU IFRS requires the Management to make certain estimates and assumptions which affect the values disclosed in the financial statements and the related notes. While the assumptions and estimates are based on the Management's best knowledge of current operations and developments, actual results may differ from the projections.

The estimates and underlying assumptions are revised on a continuous basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

6. Adopted accounting policies

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

Other explanatory notes to the interim condensed consolidated financial statements

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1. Operating segments

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

Reporting segments	Undertakings comprising the segment	Business profile
Poland	Pfleiderer Grajewo S.A.	Production of chipboard
	Jura Polska Sp. z o.o.	Transport services - mainly for Panel Polska
	Pfleiderer Prospan S.A.	Production of chipboard
	Unifloor Sp. z o.o. (in liquidation)	Production of laminate flooring
	Pfleiderer MDF Sp. z o.o.	Production of thin MDF board
	Silekol Sp. z o.o.	Production of resins and adhesives – mainly for the Group's purposes
Russia	Pfleiderer OOO	Production of chipboard
	Pfleiderer MDF OOO	Investment in progress

The table below presents the reporting segments' revenue for the period January 1st – June 30th 2011.

	Jan 1 – Jun 30 2011	**Jan 1 – Jun 30 2011**	**Jan 1 – Jun 30 2011**
Reporting segment	Revenue outside the segment	Intersegment revenue	Revenue outside the Group
Poland	652,910	34,000	618,910
Russia	180,222	0	180,222
Total	**833,132**	**34,000**	**799,132**

	Jan 1 – Jun 30 2010	**Jan 1 – Jun 30 2010**	**Jan 1–Jun 30 2010**
Reporting segment	Revenue outside the segment	Intersegment revenue	Revenue outside the Group
Poland	537,632	25,663	511,969
Russia	108,635	0	108,635
Total	**646,267**	**25,663**	**620,604**

Reconciliation of pre-tax profits/ (losses) of the reporting segments

Reporting segment	**Jan 1– Jun 30 2011** Pre-tax profit/ (loss)	**Jan 1– Jun 30 2010** Pre-tax profit/ (loss)
Poland	13,927	(10,599)
Russia	(12,316)	(7,482)
profit/ (loss) of the Segments	1,611	(18,081)
Intersegment eliminations	(191)	(82)
Consolidated pre-tax profit/ (loss)	**1,420**	**(18,163)**

2. Seasonality of operations

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

3. Change in presentation of operating expenses

As from 2011, following the implementation of a uniform method of cost allocation across the Pfleiderer Group, some of the general and administrative expenses have been allocated to cost of sales or selling costs. Although the change did not affect operating profit/loss, it reduced gross profit/loss in 2011. If the Group reclassified the comparative data for H1 2010, cost of sales would amount to PLN 535.4m, gross profit - to approximately PLN 85.2m, selling costs - to PLN 40.1m, and general and administrative expenses - to PLN 41.5m, with operating profit/loss remaining unchanged.

4. Finance income and expenses

	Jan 1– Jun 30 2011	Jan 1– Jun 30 2010	Apr 1– Jun 30 2011	Apr 1– Jun 30 2010
Finance income				
Interest income	287	258	141	129
Foreign exchange gains	2,951	26,950	0	10,894
Profit on forward contracts	886	0	464	0
Other finance income	2	0	2	0
	4,126	27,208	607	11,023,
Finance expenses				
Interest expense	46,841	41,265	24,397	21,449
Net foreign exchange losses	0	0	1,456	0
Loss on forward contracts	73	0	33	0
Other finance expenses	1,463	2,101	113	1,633
	48,377	43,366	25,999	23,082,
Net finance expenses	**(44,251)**	**(16,158)**	**(25,392)**	**(12,059),**

5. Property, plant and equipment

There was a review of fixed assets useful life in third quarter of 2010. As a result of the review useful lives of machinery and equipment were prolonged, thus depreciation charge in first half of 2011 amounted to PLN 38.6 m (including intangible assets) in comparison to PLN 60.0 m in the first half of 2010.

6. Corporate income tax

The effective tax rate for H1 2011 was 12%. As at the end of 2010, the effective tax rate was 12%. The income tax has been calculated using the weighted average tax rate planned for the financial year. The low value of the tax rate is attributable to not recognising of income tax on activities provided in Special Economic Zone and the permanent tax differences in Russia.

7. Trade receivables

	Jun 30 2011	Dec 31 2010
Trade receivables	114,397	119,741
Trade receivables - related undertakings	6,761	6,816
Prepayments and accrued income	6,912	7,149
VAT receivables	22,272	22,806
Other receivables	6,724	6,545
Total	**157,066**	**163,057**

8. Equity

In thousand shares

	Jun 30 2011	Dec 31 2010
Number of shares at beginning of period	49,624	49,624
Number of (fully paid up) shares at end of period	49,624	49,624
Nominal price of the share	**PLN 0,33**	**PLN 0,33**
Earnings/ (loss) per share attributable to owners of the parent	**PLN 0.07**	**(PLN 0.31)**

All the shares issued by the Group are ordinary shares. Holders of ordinary shares are entitled to receive approved dividends and to exercise one vote per each share held at the Company's General Shareholders Meeting. All shares confer the same rights to share in the distribution, if any, of the Company's assets.

Pfleiderer Grajewo S.A. is a subsidiary undertaking of Pfleiderer Service GmbH, which holds 65.11% of the Company's share capital. In the period from January 1st to June 30th 2011, the number of Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

Dividends

The parent undertaking did not pay dividend for 2010.

9. Loans and borrowings

	Jun 30 2011	Dec 31 2010
Non-current liabilities		
Overdraft facility maturing in more than 12 months as from the balance-sheet date	0	18,227
Non-current portion of interest-bearing bank loans and borrowings	734,408	820,063
Loans from related undertakings	143,446	155,748
Total	**877,854**	**994,038**
Current liabilities		
Overdraft facility maturing in less than 12 months as from the balance-sheet date	86,202	720
Current portion of interest-bearing bank loans and borrowings	106,053	62,150
Loans from related undertakings	4 585	0
Total	**196 840**	**62,870**

Bank loans

The balance of liabilities under bank loans stood at PLN 926,663 thousand as at June 30th 2011 (PLN 901,160 thousand as at December 31st 2010).

All credit lines used by the Group bear interest at a variable interest rate (WIBOR, MOSPRIME or EURIBOR) plus a margin.

Terms and repayment schedules of bank loans as at June 30th 2011:

					As at Jun 30 2011	
Lender	**Currency**	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of five banks Tranche B	PLN	WIBOR + margin	Mar 16 2012	mortgages, pledges	86,202	0
Syndicate of five banks Tranche A	PLN	WIBOR + margin	Dec 30 2013	mortgages, pledges	33,367	471,226
PKO Bank Polski S.A.	PLN	WIBOR + bank's margin	July 15th 2016	mortgage, registered pledge, assignments	25,363	207,664
PKO Bank Polski S.A.	PLN	WIBOR + bank's margin	Jun 30 2013	mortgage, registered pledge, assignments	0	32,648
EBRD	EUR	6M EURIBOR + margin	Oct 11 2013	surety, mortgage, registered pledge	15,743	22,870
EBRD	RUB	EURIBOR + margin	Jun 19 2012	Shares in Pfleiderer OOO	31,576	0
Raiffeisen Bank Russia	RUB	MOSPRIME + margin	Sep 21 2011	Grajewo's letter of intent	4	0
				Total	**192,255**	**734,408**

Terms and repayment schedules of bank loans as at December 31st 2010:

					As at Dec 31 2010	
Lender	**Currency**	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of 5 banks Tranche B	PLN	WIBOR + margin	Mar 16 2012	mortgages, pledges	0	18,227
Syndicate of five banks Tranche A	PLN	WIBOR + margin	Dec 30 2013	mortgages, pledges	30,263	490,001
PKO Bank Polski S.A.	PLN	WIBOR + bank's margin	Oct 15 2011	mortgage, registered pledge, assignments	12,000	0
PKO Bank Polski S.A.	PLN	WIBOR + bank's margin	Jul 15 2016	mortgage, registered pledge, assignments	0	227,127
PKO Bank Polski S.A.	PLN	WIBOR + bank's margin	Jun 30 2013	mortgage, registered pledge, assignments	0	42,662
EBRD	EUR	6M EURIBOR + margin	Oct 11 2013	surety, mortgage, registered pledge	19,887	25,910
EBRD	RUB	EURIBOR + margin	Jun 19 2012	Shares in Pfleiderer OOO	0	34,363
Raiffeisen Bank Russia	RUB	MOSPRIME + margin	Sep 21 2011	Grajewo's letter of intent	720	0
				Total	**62,870**	**838,290**

Syndicated credit facility agreement

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

The credit facility extended under the agreement is split into two tranches:

- PLN 530,000,000 Tranche A, in the form of a non-revolving loan to be used to repay the outstanding debt owed by the Group to the Banks.

- PLN 170,000,000 Tranche B, in the form of a working capital revolving facility to be used to repay the outstanding debt owed by the Group to the Banks and to finance the Group's day-to-day operations.

The repayment deadline for Tranche A is December 30th 2013, while Tranche B is to be repaid on the second anniversary of the credit facility agreement date. Furthermore, under Tranche B, bank guarantees and letters of credit may be issued.

Repayment of the credit facility is secured by several security instruments, including:

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

Additionally, an agreement creating a pledge over Pfleiderer Grajewo S.A.'s shareholding in Pfleiderer

MDF OOO is to be executed, and the scope of security to be created over Pfleiderer MDF OOO's assets is to be established. At present, the agreed date for the performance of the obligations specified above is September 30th 2011.

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

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

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

Other credit facility agreements

Pfleiderer OOO of Russia, a subsidiary undertaking, was advanced an investment loan by the European Bank for Reconstruction and Development, repayable in instalments by October 11th 2013. As at June 30th 2011, Pfleiderer OOO's debt outstanding under the loan was EUR 9,615 thousand (PLN 38.344 thousand).

Additionally Pfleiderer OOO finances its working capital with a bank loan in the form of an overdraft facility contracted with ZAO Raiffeisen Bank, which falls due in September, 21 2011. As at June 30th 2011, Pfleiderer OOO's debt outstanding under the loan was RUB 41 thousand (PLN 4 thousand).

In performance of the agreement with the EBRD, in Q2 2007 Pfleiderer OOO issued, and the EBRD subscribed for, new shares worth EUR 7m. The agreement provides that the EBRD will retain its capital commitment until June 19th 2012. Thereafter, the shares will be sold to Pfleiderer Grajewo S.A.. Pfleiderer Grajewo S.A. has a call option allowing it to repurchase the shares held by the Bank at any time before the abovementioned date. The EBRD holds a put option to allowing it to early sell the shares in the event of a default under the financing agreements executed by the Company and Pfleiderer OOO with the EBRD or if there is a risk that the shares will not be repurchased by the agreed deadline. The transaction's annual funding costs, 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 MDF Sp. z o.o. has contracted an investment loan with PKO BP S.A., to be repaid in instalments by July 15th 2016. As at June 30th 2011, the debt under the loan amounted to PLN 233,027 thousand. Moreover, Pfleiderer MDF Sp. z o.o. was advanced by PKO BP S.A. a PLN 57m multi-purpose credit facility repayable by June 30th 2013. As at June 30th 2011, the outstanding amount under this facility stood at PLN 32,648 thousand.

Loans from related undertakings

	Jun 30 2011	Dec 31 2010
Loans from related undertakings maturing in less than 12 months as from the balance-sheet date	4,585	0
Loans from related undertakings maturing in more than 12 months as from the balance-sheet date	143,446	155,748
	148,031	155,748

Liabilities under loans from related undertakings comprise a PLN 118,146 thousand loan advanced to the Group by related undertaking Pfleiderer AG of Germany to finance construction of the new MDF board production plant in Russia. The Group is obliged to repay EUR 25,5m plus interest on July 31st 2012, and EUR 1,15m (PLN 4 585 thousand) on December 31st 2011.

Furthermore, Pfleiderer Service GmbH of Germany advanced a subordinate loan to Pfleiderer MDF Sp. z o.o. and to Pfleiderer Grajewo S.A., repayable respectively in July 2016 and in June 2014. As at the balance-sheet date, the outstanding amounts of the loan are: PLN 21.7m in the case of Pfleiderer Grajewo and PLN 8.2m in the case of Pfleiderer MDF Sp. z o.o.

On February 8th 2011, the share capital of subsidiary Pfleiderer MDF Sp. z o.o. was increased by PLN 35,278 thousand. The shares issued as part of the increase were acquired by Pfleiderer Grajewo S.A. (PLN 17,639 thousand) and Pfleiderer Service GmbH (PLN 17,639 thousand). As agreed upon on February 25th 2011, the share capital increase was effected by way of compensation of mutual claims through a conversion of the debt under the loans advanced by Pfleiderer Grajewo S.A. and Pfleiderer Service GmbH into equity.

10 Trade and other payables

	Jun 30 2011	Dec 31 2010
Trade payables	172,370	190,709
Trade payables - related undertakings	14,575	17,200
Liabilities under factoring agreements	19,291	18,473
VAT liabilities	1,008	1,087
Liabilities under investment supplies	403	1,340
Prepaid deliveries	2,662	3,109
Other liabilities	17,013	10,994
Total	**227,322**	**242,912**

11 Financial instruments

Objectives and methods of financial risk management adopted by the Group

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

The objective behind credit risk management is to reduce the Group's losses which could follow from customers' insolvency. This risk is mitigated through insurance of receivables and non-recourse factoring. The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position from the point of view of cash flows. To manage the currency risk, it first relies on natural hedging and, where necessary, uses forward contracts. The objective of financial liquidity management is to protect the Group against insolvency. This objective is pursued through regular projection of debt levels in a five-year horizon, and arrangement of appropriate financing sources.

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

In 2011, the Pfleiderer Grajewo Group entered into a number of EUR/PLN forward contracts to hedge the currency risk related to its planned business transactions. As at June 30th 2011, the Group had 11 open EUR/PLN forward contracts hedging the currency risk related to business transactions.

Liquidity risk

As at June 30th 2011, the Pfleiderer Grajewo Group had debt under loans in the amount of PLN 926.5m and concurrently it had an unused credit facility of PLN 102m. The Group also held cash of PLN 35.3m.

On March 16th 2010, the Group executed a PLN 700,000 thousand credit facility agreement with a bank syndicate.

Pursuant to the provisions of the Credit Facility Agreement, a default under the credit facility agreements of Pfleiderer AG, the indirect parent undertaking of Pfleiderer Grajewo S.A., constitutes a default under the Credit Facility Agreement.

In connection with the default by Pfleiderer AG under its credit facility agreements in 2010, parent undertaking Pfleiderer Grajewo S.A. obtained relevant waivers from the financing banks whereby the banks waived their rights to terminate the credit facility agreement with Pfleiderer Grajewo S.A. due to the default under the credit facility agreements executed by Pfleiderer AG.

In 2011, a restructuring programme was developed at Pfleiderer AG and subsequently approved by the shareholders of Pfleiderer AG on July 21st 2011, which reduces the risk of Pfleiderer AG again defaulting under its credit facility agreements.

The Management Board of Pfleiderer Grajewo S.A. intends to obtain, by September 30th 2011, the banks' consent to change the terms of the Credit Facility Agreement by deleting the provision stating that a default under the credit facility agreements of Pfleiderer AG constitutes a default under the Credit Facility Agreement of Pfleiderer Grajewo S.A.

The Group monitors on an ongoing basis the level of its financial ratios and, based on its short-term plans, assesses the risk of failure to meet the ratios set by the banks.

The level of and exposure to currency, credit and interest rate risks did not change significantly in relation to the Group's most recent annual report (for 2010).

12 Contingent liabilities and security

As at June 30th 2011, the Group's assets were encumbered with the following security interests:

1) Mortgage on real estate and a registered pledge over plant and equipment

A mortgage on real estate and a registered pledge over plant and equipment serve as security for an investment loan granted to Pfleiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose loan contracted to finance the construction of the new MDF board production plant in Grajewo. A mortgage on real estate secures a liability up to PLN 356,860 thousand. The registered pledge over plant and equipment secures liabilities up to PLN 450,000 thousand and has been created over a floating group of assets owned by Pfleiderer MDF Sp. z o.o. (floating charge). The pledge is updated on a quarterly basis to take account of any changes in the company's movable property (plant and equipment, vehicles). As at June 30th 2011, the Group's debt under the investment loan totalled PLN 233m (As at December 31st 2010, PLN 239,1m).

2) Mortgage on real estate located at ul. Wiórowa in Grajewo and a registered pledge over assets

A mortgage of up to PLN 80,000 thousand created on the real estate located at ul. Wiórowa in Grajewo on which the MDF plant is situated, serves as security for the PLN 57,000 thousand multi-purpose credit facility granted to the Pfleiderer Group by PKO Bank Polski S.A. on August 29th 2007.

The registered pledge was created under an agreement on registered pledge over assets, dated July 30th 2010, concluded between Pfleiderer MDF Sp. z o.o. and PKO Bank Polski S.A. The pledge, with the

maximum security amount of PLN 83,163 thousand was created for the benefit of PKO Bank Polski S.A. to secure claims under a PLN 57,000 thousand credit facility granted to Pfleiderer MDF Sp. z o.o. 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 PKO Bank Polski S.A. in connection with an investment loan agreement of January 15th 2007.

As at June 30th 2011, the Group's debt under the multi-purpose credit facility totalled PLN 32.6m (As at December 31st 2010, PLN 42,7m).

3) Security for claims under the credit facility agreement concluded on March 16th 2010 with Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., Fortis Bank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

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

- establishment of contractual joint ceiling mortgages over the Company's and the Subsidiaries' real estate, on which production facilities are located, up to the amount of PLN 1,400m;
- establishment of registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of PLN 1,050m;
- establishment of registered and financial pledges over bank accounts;
- assignment of rights under insurance agreements by way of security;
- assignment by way of security of the Company's interest in the co-ownership of plant and equipment intended to be used for the MDF project in Russia.
- establishment of financial and registered pledges over the Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.

As at June 30th 2011, the Company held 2,462,136 registered ordinary shares in Pfleiderer Prospan S.A. with a total par value of PLN 246,213,600, representing 100% of the company's share capital and 100% of the total vote at its general shareholders meeting; and 22,700 shares in Silekol Sp. z o.o. with a total par value of PLN 22,700,000 representing 50% of the company's share capital and 50% of the total vote at its general shareholders meeting.

Furthermore, on March 25th 2010, the Company, the Subsidiaries and the Banks executed an agreement with the European Bank for Reconstruction and Development (the "EBRD"), which provides financing to Pfleiderer OOO of Russia under the credit facility agreement of December 27th 2005. Under the agreement, the parties agreed upon the scope of the security to be created over the Company's and the Subsidiaries' assets. As a result, Pfleiderer Prospan S.A. and Silekol Sp. z o.o. acceded to the following agreements executed between Pfleiderer Grajewo S.A. and the EBRD:

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

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

- establishment of contractual joint ceiling mortgages over the Company's and the Subsidiaries' real

estate, on which production facilities are located, up to the amount of EUR 70.5m;

- creation of registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of EUR 79.5m.

Additionally, the following agreements were concluded to secure the repayment of liabilities to the EBRD by Pfleiderer OOO under the credit facility agreement of December 27th 2005:

- agreement creating a pledge over movable property of Pfleiderer OOO;
- mortgage on real estate owned by Pfleiderer OOO, on which the plant is situated;
- agreement creating a pledge over the shares held by the Company in Pfleiderer OOO. The pledge was established over one share in Pfleiderer OOO's share capital, representing 84.1913% of the company's share capital and conferring the right to 84.1913% of the total vote at Pfleiderer OOO's general shareholders meeting.

As at June 30th 2011, the Group had issued the following sureties:

Surety in respect of a blank promissory note issued by 3Spare Sp. z o.o. for the benefit of BGŻ S.A. The surety pertains to the investment loan granted by BGŻ S.A. to 3Spare Sp. z o.o. As at June 30th 2011, currently repayable debt outstanding under the loan amounted to PLN 3,028 thousand (As at December 31st 2010, PLN 6.662 thousand).

13. Material related-party transactions

The table below presents the Group's related-party transactions in the period January 1st – June 30th 2011 and January 1st – June 30th 2010.

	January 1st – June 30th 2011			**January 1st – June 30th 2010**		
Undertaking	Sales	Finance expenses	Purchases	Sales	Finance expenses	Purchases
Pfleiderer Service GmbH	199	1.154	4,987	2,212	992	3,841
Pfleiderer Aktiengesellschaft	1	3.351	3,719	2	5,479	2,558
Pfleiderer Holzwerkstoffe GmbH & Co.KG	0	0	0	0	0	195
Pfleiderer Holzwerkstoffe Nidda GmbH & Co.KG	0	0	0	1,045	0	195
Wodego GmbH	18,351	0	179	12,452	0	2,017
Thermopal GmbH	1,395	0	0	2,191	0	0
Pfleiderer Industrie GmbH	11,651	0	13,115	10,616	0	566
Jura Speditions GmbH	30	0	1,250	20	0	1,128
Duropal GmbH	0	0	1,447	71	0	4,091
BHT Bau + Holztechnik Thüringen GmbH	265	0	0	3,908	0	0
Kunz Faserplattenwerk Baruth GmbH	6,409	0	139	999	0	0
Pergo Inc.	19	0	59	0	0	0
Fideris Spanplatten AG	0	0	7	0	0	0
Fols Sp. z.o.o	0	0	12	0	0	0
Wodego AG	0	0	18	0	0	0
Pfleiderer Engineering International GmbH	0	0	266	0	0	272
Total	**38,320**	**4,505**	**25,198**	**33,516**	**6,471**	**14,863**

	June 30th 2011				December 31st 2010			
Undertaking	Liabilities under loans	Trade receivables	Trade payables	Prepayments for property, plant and equipment	Liabilities under loans	Trade receivables	Trade payables	Prepayments for property, plant and equipment
Pfleiderer Service GmbH	29,885	1,229	3,144	0	46,228	1,752	4,386	0
Pfleiderer Aktiengesellschaft	118,146	0	4,759	74,443	109,520	0	4,487	74,443
Pfleiderer Schweiz AG	0	0	797	0	0	0	0	0
Wodego GmbH	0	2,743	151	0	0	2,236	24	0
Thermopal GmbH	0	149	0	0	0	0	0	0
Pfleiderer Industrie GmbH	0	2,249	3,894	0	0	734	3,608	0
Jura Speditions GmbH	0	0	318	0	0	0	541	0
Duropal GmbH	0	0	872	0	0	36	4,099	0
BHT Bau + Holztechnik Thüringen GmbH	0	0	0	0	0	1,530	0	0
Kunz Faserplattenwerk Baruth GmbH	0	391	0	0	0	194	0	0
Pergo Inc.	0	0	0	0	0	64	0	0
Uniboard Inc.	0	0	0	0	0	270	0	0
Uniboard Canada Inc.	0	0	10	0	0	0	11	0
Fideris Spanplatten AG	0	0	7	0	0	0	0	0
Wodego AG	0	0	18	0	0	0	0	0
Pfleiderer Engineering International GmbH	0	0	605	0	0	0	44	0
Total	**148,031**	**6,761**	**14,575**	**74,443**	**155,748**	**6,816**	**17,200**	**74,443**

Remuneration of management and supervisory personnel

The remuneration, including bonuses, paid and payable to the parent undertaking's Management Board and Supervisory Board.

	January 1st – June 30th 2011	January 1st – June 30th 2010
Remuneration of Management Board	1,320	1,685
Remuneration of Supervisory Board	25	23
	1,345	**1,708**

The remuneration, including bonuses, paid and payable to the Pfleiderer Prospan S.A. (Company's subsidiary) Management Board

	January 1st – June 30th 2011	January 1st – June 30th 2010
Remuneration of Management Board	1,320	1,685
	1,320	**1,685**

As at June, 31 2011 Dariusz Tomaszewski, Member of the Management Board had debt to subsidiary Pfleiderer Prospan SA in amount of PLN 26 thousand.

As at the date of this report, the Management Board members held the following stakes in the Company:

- Wojciech Gątkiewicz, President of the Management Board, 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 Pfleiderer Grajewo shares. Jan Woźniak, Member of the Supervisory Board, held 10,000 Pfleiderer Grajewo shares. The other members of the Supervisory Board held no Company shares.

14. Events subsequent to the balance-sheet date

On July 20th 2011, the Extraordinary General Shareholders Meeting of Pfleiderer Grajewo adopted a resolution to:

- amend the Company's Articles of Association as regards the Management Board's authorisation to increase the Company's share capital within the limit of authorised capital, with an option to disapply, in whole or in part, the existing shareholders' pre-emptive rights to acquire shares and subscription warrants, seek the admission and introduction of the shares and allotment certificates issued within the limit of authorised capital to trading on the regulated market and convert them into book-entry form, as well as to amend the Company's Articles of Association in connection with the Management Board's

exercising its authorisation to increase the Company's share capital within the limit of authorised capital, and

- issue subscription warrants, carry out a conditional share capital increase, disapply in full the pre-emptive rights of the existing shareholders, and amend the Company's Articles of Association, as well as to seek the admission and introduction of the shares issued as part of the conditional share capital increase to trading on the regulated market, and convert them into book-entry form.

The amended Articles of Association authorise the Company's Management Board to increase the Company's share capital through an issue of up to 11,000,000 new Series E shares with a par value of PLN 0.33 per share and with a total par value of up to PLN 3,630,000 (the "Series E Shares"). Subject to the Supervisory Board's consent, the Management Board, acting pursuant to its authorisation to increase the Company's share capital within the limit of authorised capital, may also issue subscription warrants exercisable by December 31st 2012. (the "Warrants"). Furthermore, subject to the Supervisory Board's consent, the Management Board may disapply, in whole or in part, the existing shareholders' pre-emptive rights to acquire Series E Shares and Warrants. However, if this is the case, Series E Shares will be publicly offered by the Company at their issue price equal to or higher than EUR 50,000 as at the pricing date.

The Management Board's authorisation to increase the share capital within the limit of authorised capital expires on December 31st 2012.

The issue price of Series E Shares issued within the limit of authorised capital will be determined by the Management Board in reference to the prevailing price of the Company shares on the regulated market of the Warsaw Stock Exchange and based on the findings of an investor demand analysis performed by the Management Board, and will be such as to ensure that an acceptable amount of proceeds is earned by the Company. Warrants may be issued by the Company free of charge.

The objective behind the share capital increase within the limit of the authorised share capital is to enable the Company to raise funds for an increase of the share capital of Pfleiderer MDF OOO of Novgorod (Russia), with a view to financing Pfleiderer MDF's investment project involving the construction of a MDF/HDF board production plant.

Moreover, the amended Articles of Association provide for a conditional share capital increase by up to PLN 6,772,920, effected through an issue of up to 20,524,000 Series F ordinary bearer shares with a par value of PLN 0.33 per share (the "Series F Shares") The purpose of the conditional share capital increase is to enable the holders of 20,524,000 subscription warrants (the "Subscription Warrants"), to be offered in a private placement to Pfleiderer Service GmbH, to acquire Series F Shares.

The Company will issue Subscription Warrants free of charge. The issue price of Series F Shares issued as part of the conditional share capital increase will be determined by the Management Board. However, the price may not be lower than the issue price of Series E Shares issued within the limit of authorised capital. If Series F Shares are acquired later than Series E Shares, the issue price of Series F Shares may not be lower than the issue price of Series E Shares plus 5% per annum.

The primary objective behind the conditional share capital increase and disapplication of the existing shareholders' pre-emptive rights to Series F Shares and to Subscription Warrants is to enable the Company to raise funds for an increase of the share capital of Pfleiderer MDF OOO of Novgorod (Russia), with a view to financing Pfleiderer MDF's investment project involving the construction of a MDF/HDF board production plant.

Moreover, the conditional share capital increase and issue of Subscription Warrants are related to the Management Board's authorisation to increase the Company's share capital within the limit of the authorised capital. Considering that a restructuring process is underway at the Pfleiderer Group in Germany, it is possible that Pfleiderer Service GmbH will not participate in the first share issue, which would lead to dilution of its existing interest in the Company's share capital and the total vote at its General Shareholders Meeting. The Company is keen to ensure that Pfleiderer Service GmbH, the majority shareholder, retains its existing interest. This may be achieved by carrying out a conditional

share capital increase with pre-emptive rights of the existing shareholders disapplied.

Pfleiderer Grajewo S.A.'s ability to secure financing (through a share issue) is prerequisite to providing subsidiary Pfleiderer MDF OOO of Novgorod, Russia, with funds necessary to complete the construction of the MDF/HDF board production plant.

Efforts aimed at securing the funds should not affect the Company's shareholder structure. Therefore, the issue of Series E shares offered to Investors is complemented by the issue of Series F Shares offered to Pfleiderer Service GmbH, Pfleiderer Grajewo S.A.'s parent undertaking, so as to ensure that Pfleiderer Service GmbH's interest is not diluted.

Furthermore, on July 20th 2011, the Extraordinary General Shareholders Meeting of Pfleiderer Grajewo S.A. resolved to repurchase the Company's own shares for cancellation. The purpose of the repurchase is to enable the Company to effectively use the surplus cash earned from the issue of shares within the limit of authorised capital.

Pfleiderer Service GmbH, the majority shareholder, is keen to retain its existing interest in the Company's share capital and total vote. Considering that a restructuring process is underway at the Pfleiderer Group in Germany, it is possible that PfleidererService GmbH will not participate in the first share issue, which would lead to dilution of its existing interest in the Company's share capital and the total vote at its General Shareholders Meeting. Acquisition by Pfleiderer Service GmbH of shares offered in subsequent share issues will enable it to recover the previously held interest in the Company's share capital and total vote, but at the same time it may generate significant surplus of cash relative to the Company's investment capital requirements.

15. Accounting estimates and assumptions

The Group makes estimates and assumptions relating to the future. Naturally, accounting estimates derived in that way may differ from actual performance. Those estimates and assumptions that carry a significant risk that material adjustments will be needed in the carrying values of assets or liabilities in the course of the following financial year are discussed below.

The Group performs reviews on a regular basis and recognises impairment losses on individual assets, which are taken to profit or loss. In particular, impairment losses are recognised with respect to trade receivables and inventories of materials and finished goods. In addition, the Group reviews on a continuous basis its non-current assets employed, including with regard to their economic useful lives and circumstances affecting their recoverable amounts. The amount of provisions for future retirement, sick pension and length-of-service entitlement obligations is determined using an actuarial method on the basis of adopted assumptions.

In H1 2011, there was no material change in the estimates and judgements relative to the Group's most recent annual consolidated financial statements for the financial year ended December 31st 2010.

Wojciech Gątkiewicz
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Radosław Wierzbicki
Member of the Management Board, Chief Operating Officer

Agnieszka Kabus
Person responsible for keeping the accounting records

Grajewo, August 17th 2011