PFLEIDERER GRAJEWO S.A.

INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 1ST 2011– JUNE 30TH 2011

PFLEIDERER GRAJEWO S.A.

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INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed statement of comprehensive income

	Jan 1– Jun 30 2011	**Jan 1– Jun 30 2010**	**Apr 1– Jun 30 2011**	**Apr 1– Jun 30 2010**
	Continuing operations unaudited	Continuing operations unaudited	Continuing operations unaudited	Continuing operations unaudited
Sales revenue	350,545	283,294	178,950	149,276
Cost of sales	(310,849)	(244,413)	(157,270)	(125,417)
Gross profit	**39,696**	**38,881**	**21,680**	**23,859**
			0	
Other income	379	1,039	164	648
Selling costs	(13,664)	(11,767)	(7,134)	(5,580)
General and administrative expenses	(12,769)	(15,734)	(6,477)	(5,925)
Other expenses	(980)	(951)	(324)	(490)
Operating profit	**12,662**	**11,468**	**7,909**	**12,512**
Finance income	38,121	71,144	20,828	63,088
Finance expenses	(36,979)	(31,445)	(18,763)	(17,067)
Net finance income	**1,142**	**39,699**	**2,065**	**46,021**
Profit before tax	**13,804**	**51,167**	**9,974**	**58,533**
Corporate income tax	(648)	(7,815)	642	(8,672)
Net profit	**13,156**	**43,352**	**10,616**	**49,861**
Comprehensive income for period				
Effective portion of gain on fair-value measurement of hedging instruments, including corporate income tax	**229**	**0**	**420**	**0**
Total comprehensive income for period	**13,385**	**43,452**	**11,036**	**49,861**
Basic earnings per share (PLN)	0.27	0.87	0.22	1.00
Diluted earnings per share (PLN)	0.27	0.87	0.22	1.00

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(all figures in PLN '000)

Interim condensed statement of changes in equity

	Share capital	Share premium account	Statutory reserve funds	Retained earnings	Total
Balance as at Jan 1 2010	**16,376**	**289,806**	**133,471**	**43,293**	**482,946**
Comprehensive income for period					
Net profit	0	0	0	43,352	43,352
Total comprehensive income for period	0	0	0	43,352	43,352
Transactions with owners recognised in equity	0	0	0	0	0
Transfer of 2009 net profit to statutory reserve funds	0	0	20,211	(20,211)	0
Total transactions with owners recognised in equity	0	0	20,211	(20,211)	0
Balance as at Jun 30 2010 (unaudited)	**16,376**	**289,806**	**153,682**	**66,434**	**526,298**

	Share capital	Share premium account	Statutory reserve funds	Cash flow hedges	Retained earnings	Total
Balance as at Jan 1 2011	**16,376**	**289,806**	**153,664**	**589**	**24,376**	**484,811**
Comprehensive income for period						
Net profit	0	0	0	0	13,156,	13,156
Effective portion of gain on fair-value measurement of hedging instruments,	0	0	0	229	0	229
Total comprehensive income for period	0	0	0	229	13,156	13,385
Transactions with owners recognised in equity	0	0	0	0	0	0
Transfer of 2010 net profit to statutory reserve funds	0	0	1,294	0	(1,294)	0
Total transactions with owners recognised in equity	0	0	1,294	0	(1,294)	0
Balance as at Jun 30 2011 (unaudited)	**16,376**	**289,806**	**154,958**	**818**	**36,238**	**498,196**

PFLEIDERER GRAJEWO S.A.

(all figures in PLN '000)

Interim condensed statement of financial position

	Note	Jun 30 2011	Dec 31 2010
Assets			
Property, plant and equipment	1	110,124	115,972
Intangible assets		2,251	3,208
Investments in subsidiary undertakings	2	807,957	790,134
Other non-current financial assets		10	10
Non-current loans advanced – subsidiary undertakings	2	378,685	383,387
Deferred tax assets		1,462	2,110
Non-current assets		**1,300,489**	**1,294,821**
Inventories		60,421	50,923
Trade and other receivables		165,884	132,965
Cash and cash equivalents		6,441	839
Currency forwards		818	589
Current assets		**233,564**	**185,316**
Total assets		**1,534,053**	**1,480,137**
Equity			
Share capital		16,376	16,376
Share premium account		289,806	289,806
Statutory reserve funds		154,958	153,664
Cash flow hedges		818	589
Retained earnings		36,238	24,376
Total equity		**498,196**	**484,811**
Liabilities			
Loans and borrowings	3	492,929	563,435
Employee benefit obligations		4,405	4,405
Non-current liabilities		**497,334**	**567,840**
Loans and borrowings	3	154,914	30,262
Liabilities to related undertakings under debt securities	4	287,336	293,017
Trade and other payables		88,067	95,832
Employee benefit obligations		8,206	8,375
Current liabilities		**538,523**	**427,486**
Total liabilities		**1,035,857**	**995,326**
Total equity and liabilities		**1,534,053**	**1,480,137**

PFLEIDERER GRAJEWO S.A.

(all figures in PLN '000)

Interim condensed statement of cash flows

	Note	Jan 1– Jun 30 2011 unaudited	Jan 1– Jun 30 2010 unaudited
Cash flows from operating activities			
Net profit		**13,156**	**43,351**
Adjustments		(26,714)	(38,156)
Amortisation	1	6,998	13,053
Foreign exchange (gains)/losses		(6,758)	(42,969)
Dividend and interest for period		5,365	3,625
Gain from investment activity		(36)	(274)
Income tax expense		648	7,815
Change in receivables		(16,527)	(17,716)
Change in inventories		(9,498)	(3,476)
Change in trade and other payables		(7,550)	2,415
Change in employee benefit obligations		(169)	(629)
Result on forward contracts		813	0
Cash flows from operating activities		**(13,558)**	**5,195**
Interest received		50	41
Interest paid		(23)	(88)
Net cash provided by/(used in) operating activities		**(13,531)**	**5,148**
Cash flows from investing activities			
Sale of intangible assets and property, plant and equipment		36	25
Interest received		7,178	0
Dividend and profit distributions		0	1,311
Acquisition of intangible assets and property, plant and equipment		(386)	(490)
Repayment of loans advanced		163	0
Loans advanced		0	(36,946)
Net cash provided by/(used in) investing activities		**6,991**	**(36,100)**
Cash flows from financing activities			
Repayment of loans and borrowings		(15,000)	(568,483)
Increase in loans and borrowings		67,031	637,623
Redemption of debt securities		(665,527)	(538,601)
Issue of debt securities		659,840	543,298
Interest paid		(34,202)	(31,640)
Net cash provided by/(used in) financing activities		**12,142**	**42,197**
Total net cash flow		**5,602**	**11,245**
Change in cash		5,602	11,245
Cash at beginning of period		839	4,864
Cash at end of period		**6,441**	**16,109**

Notes to the interim condensed separate financial statements

1. Overview

Pfleiderer Grajewo S.A. is a publicly traded joint-stock company registered in Poland.

The Company, 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.

The business of Pfleiderer Grajewo S.A. comprises:

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

2. Basis of preparation

a) Compliance statement

These interim condensed separate financial statements have been prepared in accordance with the International Financial Reporting Standard 34 *Interim Financial Reporting* and do not contain all the information whose disclosure is required in annual financial statements. Therefore, these interim condensed separate financial statements should be read together with the Company's annual financial statements for the financial year ended December 31st 2010.

These interim condensed separate financial statements of the Company are published along with the interim condensed consolidated financial statements of the Pfleiderer Grajewo Group. In order to gain a full understanding of the Company's financial standing and performance, these financial statements should be read together with the interim condensed consolidated financial statements of the Pfleiderer Grajewo Group.

All figures are presented in the złoty and, unless indicated otherwise, rounded to the nearest thousand.

These interim financial statements of the Company for the period January 1st–June 30th 2011 were approved by the Management Board on August 17th 2011.

b) Adopted accounting policies

These interim condensed separate financial statements have been prepared in accordance with the same accounting policies as the interim condensed consolidated financial statements of the Pfleiderer Grajewo

Group prepared as at June 30th 2011, save for investments in subsidiary undertakings which are measured at acquisition cost. Furthermore, impairment losses, if any, on shares are recognised no later than at the end of a reporting period.

The above accounting policies were applied with respect to all the periods covered by these interim financial statements.

Supplementary notes to the interim condensed separate financial statements

1. Property, plant and equipment

There was a review of fixed assets useful life in 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 7.0 m (including intangible assets) in comparison to PLN 13.1 m in the first half of 2010.

2. Investments in subsidiary undertakings

The Company carries the following investments in subsidiary undertakings:

	Jun 30 2011	Dec 31 2010
Equity interests in subsidiary undertakings	807,957	790,134
Non-current loans advanced to subsidiary undertakings	378,685	383,387
	1,186,642	**1,173,521**

On February 8th 2011, the share capital of Pfleiderer MDF Sp. z o.o., a subsidiary, was increased by PLN 35,278 thousand. The new shares were acquired by the existing shareholders of Pfleiderer Grajewo S.A. (PLN 17,639 thousand-worth of shares) and Pfleiderer Service GmbH (PLN 17,639 thousand-worth of shares). As agreed upon on February 25th 2011, the share capital increase was effected through debt set-off by converting debt under loans advanced by Pfleiderer Grajewo S.A. and Pfleiderer Service GmbH into equity.

3. Loans and borrowings

	Jun 30 2011	Dec 31 2010
Non-current liabilities		
Loans from related undertakings	21,703	20,845
Overdraft facilities	0	18,226
Non-current portion of interest-bearing bank loans	471,226	524,364
Total	**492,929**	**563,435**
Current liabilities		
Overdraft facilities	84,229	0
Current portion of interest-bearing bank loans	68,712	30,000
Interest accrued under bank loans	1,973	262
Total	**154,914**	**30,262**

Bank loans

Pfleiderer Grajewo S.A. has secured a syndicated credit facility, which comprises an overdraft facility and long-term bank loans. As at June 30th 2011, debt outstanding under the credit facility totalled PLN 626,140 thousand (December 31st 2010: PLN 572,852 thousand).

As at June 30th 2011 and December 31st 2010, the syndicated credit facility repayment terms and schedule were as follows:

				As at Dec 31 2010	
Lender	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of 5 banks Tranche B	WIBOR+margin	Mar 16 2012	mortgages, pledges	0	18,226
Syndicate of 5 banks Tranche A	WIBOR+margin	Dec 30 2013	mortgages, pledges	30,262	490,001
EBRD	EURIBOR+margin	Jun 19 2012	equity interest in Pfleiderer OOO	0	34,363
			Total	**30,262**	**542,590**

				As at Jun 30 2011	
Lender	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of 5 banks Tranche B	WIBOR+ margin	Mar 16 2012	mortgages, pledges	86,202	0
Syndicate of 5 banks Tranche A	WIBOR+ margin	Dec 30 2013	mortgages, pledges	33,367	471,226
EBRD	EURIBOR+margin	Jun 19 2012	equity interest in Pfleiderer OOO	35,345	0
			Total	**154,914**	**471,226**

On March 16th 2010, 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 to the Company 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 Company and its subsidiaries 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 Company and its subsidiaries to the Banks and to finance the Company's day-to-day operations.

The repayment date for Tranche A is December 30th 2013, while Tranche B is to be repaid in full 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 over the real estate owned by the Company and the Subsidiaries, on which production facilities are located;

- pledge over the assets owned by the Company and the Subsidiaries (pledge over a business);

- financial and registered pledge over the Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.;

- financial and registered pledge over the Company's and the Subsidiaries' bank accounts;

- assignment by way of security of the Company's plant and equipment intended to be used for the purpose of the MDF project in Russia.

For more details on the security instruments, see Note 5.

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

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

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, 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.

Also, the Company has a commitment towards the European Bank for Reconstruction and Development (the "EBRD") under the put/call option agreement of December 28th 2005. In performance of the agreement with EBRD, 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 a period of five years. Following the lapse of the period, the shares will be sold to Pfleiderer Grajewo S.A. 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 EBRD to Pfleiderer OOO. Pfleiderer Grajewo S.A. has a call option to repurchase the shares held by the Bank at any time. EBRD holds a put option to sell the shares if the financing agreements executed by the Company and Pfleiderer OOO with EBRD are breached and if there is a risk that the shares will not be repurchased by the agreed deadline.

Loans from related undertakings

As at June 30th 2011, the Company had debt of PLN 21,703 thousand outstanding under a loan from Pfleiderer Service GmbH. The repayment date is June 30th 2014.

4. Notes

The Company issues short-term notes 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 złoty-denominated, unsecured, zero-coupon bearer securities in book-entry form.

The notes are issued with a view to optimising the management of financial liquidity within the Group, reducing external debt of the Issuer and financing its day-to-day operations. The notes were acquired by Pfleiderer Prospan S.A. and Silekol Sp. z o.o., subsidiary undertakings of Pfleiderer Grajewo S.A. The cost incurred in connection with the notes issue is the Bank's commission fee. The notes are discount instruments (their issue price reflects the discount interest), redeemable at par value.

As at June 30th 2011, the Company's debt under notes in issue stood at PLN 287,336 thousand. In H1 2011, interest paid by Pfleiderer Grajewo S.A. to Pfleiderer Prospan S.A. and Silekol Sp. z o.o. totalled PLN 5,478 thousand.

5. Contingent liabilities and security

As at June 30th 2011, the Company has issued the following sureties:

1) surety in respect of a blank promissory note issued by 3Spare Sp. z o.o. for the benefit of BGŻ S.A., for up to PLN 35,624 thousand. The surety pertains to the investment loan granted by BGŻ S.A. to 3Spare Sp. z o.o. As at June 30th 2011, debt outstanding under the loan amounted to PLN 3,028 thousand (as December 31st 2010 – PLN 6,662 thousand)

2) surety of up to EUR 35,000 thousand valid for indefinite term, for the benefit of the European Bank for Reconstruction and Development for liabilities under a bank loan granted to its subsidiary undertaking, Pfleiderer OOO, to finance the construction of a new plant in Russia. As at June 30th 2011, Pfleiderer OOO's debt outstanding under the loan was PLN 38,331 thousand (EUR 9,615 thousand). The surety expires upon Pfleiderer OOO's achieving the agreed levels of financial ratios and establishing security on its assets for the benefit of the Bank. As December 31st 2010 Pfleiderer OOO's debt outstanding under the loan was PLN 48,788 thousand (EUR 12,319 thousand)

3) surety of EUR 1,115 thousand (PLN 4,445 thousand) for Pfleiderer MDF Sp. z o.o., a subsidiary undertaking. The surety secures the repayment of loan advanced to Pfleiderer MDF Sp. z o.o. by PKO BP S.A. The maximum amount of the security is PLN 4,445 thousand. (as December 31st 2010 – PLN 4,414 thousand)

In order to secure the Banks' claims under the syndicated credit facility agreement, the Company executed instruments relating to:

- establishment of contractual security mortgages over the Company's and the Subsidiaries' real estate, up to the maximum 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 by way of security;
- 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 December 31st 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, the Company and the Banks executed a creditors agreement with the European Bank for Reconstruction and Development, which provides financing to Pfleiderer OOO of Russia under the credit facility agreement of December 27th 2005. Under the creditors agreement, the parties agreed upon the scope of the security to be created over the Company's and the Subsidiaries' assets.

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

- contractual blanket security mortgages were established over the Company's and the Subsidiaries' real estate, up to the amount of EUR 70.5m;
- registered pledges were created over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of EUR 79.5m.

In addition, the Company signed an agreement whereby a pledge was created over the Company's equity interest in Pfleiderer OOO for the benefit of the EBRD, to secure repayment of a loan advanced to Pfleiderer OOO under the credit facility agreement of December 27th 2005. 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.

6. Distribution of the 2010 net profit

On June 29th 2011, the Annual General Shareholders Meeting adopted a resolution to transfer net profit for the period January 1st–December 31st 2010 totalling PLN 1,294 thousand to the Company's statutory reserve funds.

7. Change in presentation of operating expenses

Starting from 2011, the Company has changed the method of allocating costs presented in the statement of comprehensive income. As a result, some of the expense items previously presented under general and administrative expenses have been allocated to cost of sales or selling costs. This change has not affected operating profit. If the Company reclassified the comparative data for H1 2010, cost of sales would amount to PLN 249.5m, gross profit – to PLN 33.7m, selling costs – to PLN 11.8m, and general and administrative expenses – to PLN 10.6m, with operating profit remaining unchanged.

8. Events subsequent to the balance-sheet date

After June 30th 2011, Pfleiderer Grajewo S.A. carried out seven issues of debt securities 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 the 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 złoty-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes, redeemable at par value, were acquired by subsidiary undertaking Pfleiderer Prospan S.A.

On July 20th 2011, the Extraordinary General Shareholders Meeting of Pfleiderer Grajewo S.A. 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. The Company may issue Warrants 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 Novogrod (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 Grajewo GmbH, to acquire Series F Shares.

The Company will issue the 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 key purpose of the conditional share capital increase and the disapplication of the existing shareholders' pre-emptive rights to acquire Series F Shares and Subscription Warrants is to enable the Company to carry out a share capital increase at Pfleiderer MDF OOO of Novogrod, Russia and thus raise funds necessary to finance the project involving construction of a MDF/HDF board production plant by Pfleiderer MDF.

The conditional share capital increase and the issue of Subscription Warrants are also related to the Management Board's authorisation to increase the Company's share capital within the limit of 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 carried out as part of the authorised share capital, 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 Novogrod, 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 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 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. Acquisition by Pfleiderer Service GmbH of shares offered in subsequent shares 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.

9. Accounting Estimates and Assumptions

The Company performs estimates and makes assumptions relating to the future. Accounting estimates derived in that way may not, by their nature, correspond to actual performance. Below are discussed those estimates and assumptions that are connected with a significant risk of having to make major adjustments to the carrying values of assets and liabilities in the course of the following financial year.

The Company performs reviews on a regular basis and makes impairment losses on individual asset items in the statement of comprehensive income. In particular, impairment losses are made on trade receivables and on receivables related to materials and finished goods. In addition, it reviews tangible assets, including a review of their useful lives and circumstances affecting the recoverable amount. The amount of future liabilities under retirement and disability is determined with an actuarial method on the basis of adopted assumptions.

During first half of 2011 there were no significant changes in accounting estimates and assumptions considering to last Separate Annual Financial Statements for 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