GROUP
PFLEIDERER GRAJEWO S.A.

ANNUAL CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31ST 2011

CONTENTS

MANAGEMENT BOARD'S STATEMENT

Pursuant to 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 Pfleiderer Grajewo Management Board represents that to the best of its knowledge the annual consolidated financial statements for the year ended December 31st 2011 and the comparative data have been prepared in compliance with the applicable accounting policies and give a fair and clear view of the Pfleiderer Grajewo Group’s assets, financial standing and financial results, and that the annual Directors’ Report on the Group’s operations gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

The Pfleiderer Grajewo (Parent) Management Board represents that the qualified auditor of financial statements who audited the annual consolidated financial statements was appointed in compliance with applicable laws, and that both the auditing firm and the qualified auditors who performed the audit meet the conditions required to issue an impartial and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable laws and professional standards.

Wojciech Gątkiewicz
President

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, April 16th 2012

(all amounts in PLN '000)

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Statement of comprehensive income

	Note	Jan 1 2011– Dec 31 2011	Jan 1 2010– Dec 31 2010
Revenue	1	1,725,231	1,390,388
Cost of sales *)	8	(1,382,705)	(1,162,362)
Gross profit		**342,526**	**262,026**
Other operating income	4	5,511	8,223
Distribution costs *)	8	(106,086)	(92,627)
General and administrative expenses *)	8	(84,509)	(80,630)
Other operating expenses	5	(21,237)	(15,892)
Operating profit		**136,205**	**47,100**
Finance income	7	5,187	9,096
Finance costs	7	(102,645)	(90,966)
Net finance costs		**(97,458)**	**(81,870)**
Profit/ (loss) before tax		**38,747**	**(34,770)**
Corporate income tax	9	(17,012)	4,339
Net profit/ (loss)		**21,735**	**(30,431)**
Other comprehensive income			
Exchange differences on translating foreign operations		11,991	3,967
Exchange differences on net investments in subsidiaries		19,531	4,135
Effective portion of loss on fair-value measurement of hedging instruments, including corporate income tax		(589)	589
Valuation of investment property as at the reclassification date		0	619
Other		0	(18)
Total other comprehensive income for period		**30,933**	**9,292**
Total comprehensive income for the period		**52,668**	**(21,139)**
Net profit / (loss) attributable to:			
Owners of the parent		33,208	(15,183)
Non-controlling interests		(11,473)	(15,248)
Net profit/ (loss)		**21,735**	**(30,431)**
Total comprehensive income for period attributable to:			
Owners of the parent		62,140	(7,028)
Non-controlling interests		(9,472)	(14,111)
Total comprehensive income for the period		**52,668**	**(21,139)**
Basic earnings / (loss) per share (PLN)		0.67	(0.31)
Diluted earnings / (loss) per share (PLN)		0.67	(0.31)

*) Year 2010 converted

The notes attached to the consolidated financial statements constitute their integral part.

(all amounts in PLN ‘000)

Statement of changes in equity

Financial year ended December 31st 2011

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating subordinates	Exchange differences on net investments in subsidiaries	Cash flow hedges	Retained earnings/(deficit)	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 the period											
Net loss	0	0	0	0	0	0	0	33,208	33,208	(11,473)	21,735
Other comprehensive income											
Exchange differences on translating subordinates	0	0	0	0	9,990	0	0	0	9,990	2,001	11,991
Exchange differences on net investments in subsidiaries	0	0	0	0	0	19,531	0	0	19,531	0	19,531
Exchange differences on valuation of forward contracts	0	0	0	0	0	0	(589)	0	(589)		(589)
Total other comprehensive income	*0*	*0*	*0*	*0*	*9,990*	*19,531*	*(589)*	*0*	*28,932*	*2,001*	*30,933*
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**9,990**	**19,531**	**(589)**	**33,208**	**62,140**	**(9,472)**	**52,668**
Transactions with owners recognised in equity											
Increased interest in share capital of Pfleiderer MDF	0	0	0	0	0	0	0	0	0	17,639	17,639
Transfer of part of the 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 Dec 31 2011	**16,376**	**289,806**	**155,005**	**619**	**(4,839)**	**4,182**	**0**	**33,892**	**495,041**	**71,440**	**566,481**

The notes attached to the consolidated financial statements constitute their integral part.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN '000)

Financial year ended December 31st 2010

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating subsidiaries	Exchange differences on net investments in subsidiaries	Cash flow hedges	Retained earnings	Total	Non-controlling interests	Total
Balance as at Jan 1 2010	**16,376**	**289,806**	**133,518**	**0**	**(17,659)**	**(19,484)**	**0**	**37,372**	**439,929**	**77,384**	**517,313**
Comprehensive income for period											
Net loss	0	0	0	0	0	0	0	(15,183)	(15,183)	(15,248)	(30,431)
Other comprehensive income											
Exchange differences on translating foreign operations	0	0	0	0	2,830	0	0	0	2,830	1,137	3,967
Exchange differences on net investments in subsidiaries	0	0	0	0	0	4,135	0	0	4,135	0	4,135
Effective portion of loss on fair-value measurement of hedging instruments, including corporate income tax	0	0	0	0	0	0	589	0	589	0	589
Valuation of investment property as at the reclassification date	0	0	0	619	0	0	0	0	619	0	619
Other	0	0	(18)	0	0	0	0	0	(18)	0	(18)
Total other comprehensive income	0	0	(18)	619	2,830	4,135	589	0	8,155	1,137	9,292
Total comprehensive income for the period	**0**	**0**	**(18)**	**619**	**2,830**	**4,135**	**589**	**(15,183)**	**(7,028)**	**(14,111)**	**(21,139)**
Transactions with owners recognised in equity											
Transfer of 2009 net profit to statutory reserve funds	0	0	20,211	0	0	0	0	(20,211)	0	0	0
Transactions with owners recognised in equity	0	0	20,211	0	0	0	0	(20,211)	0	0	0
Balance as at Dec 31 2010	**16,376**	**289,806**	**153,711**	**619**	**(14,829)**	**(15,349)**	**589**	**1,978**	**432,901**	**63,273**	**496,174**

The notes attached to the consolidated financial statements constitute their integral part.

(all amounts in PLN ‘000)

Statement of financial position

	Note	Dec 31 2011	Dec 31 2010
Assets			
Property, plant and equipment	10	1,153,850	1,122,139
Intangible assets	11	2,539	4,704
Goodwill	3	107,829	107,829
Investments in related parties	12	117	52
Other non-current financial assets	13	10	10
Investment properties	14	4,300	4,300
Deferred tax asset	15	13,447	15,736
Prepayments for property, plant and equipment	10	207,697	217,403
Government grants receivable	16	27,165	14,549
Non-current assets		**1,516,954**	**1,486,722**
Inventories	17	241,830	181,487
Income tax receivable		111	724
Trade and other receivables	18	157,489	163,057
Other current financial assets	13	0	24
Cash and cash equivalents	30	19,586	19,868
Currency forwards		0	589
Current assets		**419,016**	**365,749**
Total assets		**1,935,970**	**1,852,471**
Equity and liabilities			
Equity			
Share capital	19	16,376	16,376
Share premium	19	289,806	289,806
Statutory reserve funds	19	155,005	153,711
Revaluation reserve		619	619
Exchange differences on translating foreign operations		(4,839)	(14,829)
Exchange differences on net investments in subsidiaries		4,182	(15,349)
Cash flow hedges		0	589
Retained earnings		33,892	1,978
Equity (attributable to owners of the parent)		**495,041**	**432,901**
Non-controlling interests		**71,440**	**63,273**
Total equity		**566,481**	**496,174**
Liabilities			
Borrowings and other debt instruments	21	880,934	994,038
Finance lease liabilities		46	87
Employee benefits payable	22	6,584	6,013
Provisions	23	634	640
Deferred tax liabilities	15	12,827	5,535
Deferred income from government grants	16	40,484	25,851
Non-current liabilities		**941,509**	**1,032,164**
Borrowings and other debt instruments	21	137,760	62,870
Finance lease liabilities		116	142
Income tax payable		188	0
Trade and other payables	24	266,922	242,912
Employee benefits payable	22	21,118	17,021
Deferred income from government grants	16	1,876	1,188
Current liabilities		**427,980**	**324,133**
Total liabilities		**1,369,489**	**1,356,297**
Total equity and liabilities		**1,935,970**	**1,852,471**

The notes attached to the consolidated financial statements constitute their integral part.

(all amounts in PLN '000)

Statement of cash flows

	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Cash flows from operating activities			
Net profit/loss		**21,735**	**(30,431)**
Adjustments		160,126	147,076
Amortisation	8	77,523	99,006
Foreign exchange gains		9 853	(8,546)
Interest for period	7	96,604	85,387
Profit on investing activities	4	(374)	(2,927)
Income tax disclosed in profit or loss of the period	9	17,012	(4,339)
Deferred income tax recognised in equity		4,580	970
Change in trade and other receivables		5,568	(27,291)
Change in inventories		(60,343)	(15,624)
Change in trade and other payables	30	18,203	23,868
Change in employee benefits payable		4,668	950
Change in provisions		(6)	(1,912)
Amortisation of government grants	16	(1,188)	(2,762)
Result on forward contracts		(2,665)	2,105
Change in exchange differences on translating foreign operations		(9,309)	(1,809)
Cash flows from operating activities		**181,861**	**116,645**
Interest received / (paid)		432	(168)
Income tax (paid)/ refunded		(6,889)	(2,865)
Net cash from (used in) operating activities		**175,404**	**113,612**
Cash flows from investing activities			
Disposal of non-current assets		440	155
Other cash from disposal of financial assets		0	123
Other cash used to acquire financial assets		(41)	0
Acquisition of intangible assets and property, plant and equipment		(34,001)	(21,369)
Net cash from (used in) investing activities		**(33,602)**	**(21,091)**
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		(62,511)	(620,492)
Repayment of overdraft facilities		(17,248)	0
Increase in borrowings and other debt instruments		22,229	588,787
Interest paid		(84,554)	(71,812)
Net cash from (used in) financing activities		**(142,084)**	**(103,517)**
Total net cash flow		**(282)**	**(10,996)**
Change in cash		(282)	(10,996)
Cash at beginning of the period		19,868	30,864
Cash at end of the period	30	**19,586**	**19,868**

The notes attached to the consolidated financial statements constitute their integral part.

Notes to the annual consolidated financial statements

1. General information

The parent entity of the Pfleiderer Grajewo Group (Parent) is a publicly traded joint-stock company registered in Poland.

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

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

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

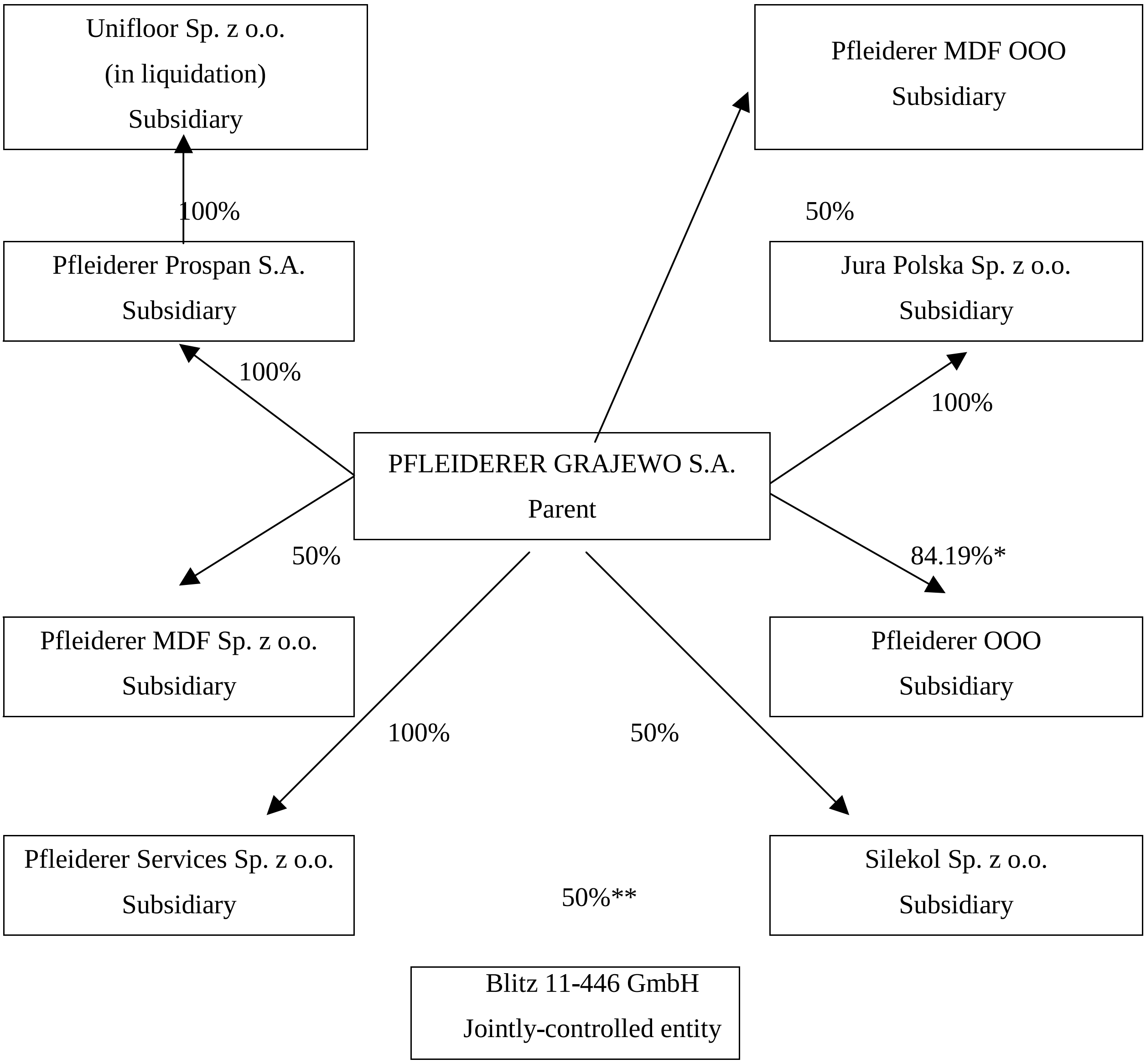
These annual consolidated financial statements were approved by the parent's Management Board on April 16th 2012.

2. Structure of the Group

Pfleiderer Grajewo S.A. is the parent 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.

Structure of the Group as at December 31st 2011:



These annual consolidated financial statements of the Pfleiderer Grajewo Group comprise the financial data of Pfleiderer Grajewo S.A., the parent, and of its subsidiaries: 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).

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

* Pfleiderer Grajewo S.A. holds a call option to repurchase the shares held by the non-controlling

(all amounts in PLN '000)

shareholder prior to the agreed date. The non-controlling shareholder holds a put option to sell early the shares held in the Parent if the financial agreements executed between the Parent, Pfleiderer OOO and the non-controlling shareholder are breached, or if there is a risk that the shares might not be repurchased by the parent by the agreed date. Accordingly, from the point of view of the Parent (Pfleiderer Grajewo S.A.), Pfleiderer OOO is treated as a subsidiary in which Pfleiderer Grajewo S.A. holds 100% of shares. June 19th 2012. For details, see Note 21.

** Shares in the company Blitz 11-446 GmbH, which is jointly controlled by a Group are taken in consolidated financial statements with the equity method.

Changes in the Group's structure in the reporting period

On December 21st 2011, Pfleiderer Grajewo S.A. and Pfleiderer Service GmbH acquired shares in Blitz 11-446 GmbH of Germany. Each of the companies holds 50% of shares in Blitz 11-446 GmbH. The purchase price paid by Pfleiderer Grajewo S.A. was EUR 14.5 thousand (PLN 65.2 thousand).

Subsidiaries 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. RHB1754 on September 23rd 1997 as Zakłady Płyt Wiórowych Prospan S.A. On September 17th 2001, the company was registered with the District Court of Łódź-Śródmieście in Łódź, XX Division of the National Court Register under entry No. KRS: 0000042082.

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

Pfleiderer OOO - a limited liability company 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 in 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 in the National Court Register by the District Court of Białystok, XII Commercial Division of the National Court Register in Białystok, under entry No. KRS

(all amounts in PLN ‘000)

174810, on October 9th 2003.

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

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

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

Blitz 11-446 GmbH of Neumarkt, Germany – a company entered in the Commercial Register by the Court in Nurnberg, under No. HRB 28 166.

HRB Registry Number:	28 166
Tax Identification Number (NIP):	201/116/21366
Registered office:	Ingolstädter Strasse 51, Neumar, Germany

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

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

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

Pfleiderer Prospan S.A.

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

Pfleiderer OOO

- manufacture of raw and melamine-faced chipboards, other materials and wood products

- production of materials from wood waste
- wholesale of own and third-party products.

Pfleiderer MDF OOO

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

Silekol Sp. z o.o.

- 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)

The company is currently in liquidation.

Pfleiderer Services Sp. z o.o.

The company suspended its operations.

Blitz 11-446 GmbH

- exports, primarily to Russia and Eastern Europe,
- provision of investment related services,
- provision of services related to exports of production equipment.

(all amounts in PLN '000)

3. Composition of the Management Board and the Parent's Supervisory Board and changes in the reporting period

As at the end of the reporting period, the composition of the Pfleiderer Grajewo Management Board was as follows:

1.	Wojciech Gątkiewicz	President
2.	Rafał Karcz	Member
3.	Dariusz Tomaszewski	Member
4.	Radosław Wierzbicki	Member

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

Composition of the Supervisory Board of the Pfleiderer Grajewo as at December 31st 2011:

1.	Michael Wolff	Chairman
2.	Hans H. Overdiek	Member
3.	Jan Woźniak	Member
4.	Hans-Joachim Ziems	Member
5.	Hans-Kurt von Werder	Member

On October 17th, Mr Heiko Graeve resigned from the Pfleiderer Grajewo Supervisory Board.

At the Extraordinary General Meeting held on November 24th 2011 Mr Paweł Wyrzykowski was removed from the post of Chairman of the Supervisory Board.
Mr Hans-Joachim Ziems and Mr Hans-Kurt von Werder were appointed as Members of the Supervisory Board.

At a meeting of the Pfleiderer Grajewo Supervisory Board held on December 21st 2011, Members of the Supervisory Board appointed Mr Michael Wolff to the post of Supervisory Board Chairman.

On March 7th 2012, Mr Hans-Joachim Ziems tendered his resignation from the position of a member of the Parent's Supervisory Board, with effect as of April 10th 2012.

At the Extraordinary General Meeting held on April 10th 2012 Mr Jochen Schapka was appointed as Member of the Supervisory Board.

4. Periods covered by the consolidated financial statements and comparative data

These annual consolidated financial statements were prepared for the year ended December 31st 2011, while the comparative financial data and notes relate to the year ended December 31st 2010.

These annual consolidated financial statements for the year ended December 31st 2011 and the comparative data comprise the financial data of Pfleiderer Grajewo S.A., the parent, and of its subsidiaries: 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).

5. Basis of preparation

a) Statement of compliance

These annual consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union ("the EU IFRS").

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

The Group has not used the option of early application of the new Standards and Interpretations which have already been published and endorsed by the European Union but which are to come into force in the periods beginning after January 1st 2011.

Furthermore, as at the reporting date, the Group had not completed the work on estimating the impact of the new Standards and Interpretations which are to become effective after January 1st 2011 on the consolidated financial statements for the period in respect of which those Standards and Interpretations will be applied for the first time.

Standards and Interpretations endorsed by the EU

Standard/Interpretation endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Amendments to IFRS 7 *Financial Instruments: Disclosures* - Transfers of Financial Assets	The Amendments require disclosure of information that enables users of financial statements: • to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and • to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.	The Group does not expect the amendments to IFRS 7 to have a material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.	July 1st 2011

Standards and interpretations that are effective but not yet endorsed by the EU

Standard/Interpretation not yet endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First – time Adopters*	The Amendments add an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows an entity to measure assets and liabilities held before the functional currency normalization 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 will not have a impact on the Group's financial statements.	July 1st 2011
Amendments to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities	The Amendments contain new disclosure requirements for financial assets and liabilities that are: • offset in the statement of financial position; or • subject to master netting arrangements or similar agreements.	It is expected that the Amendments, when initially applied, will have a significant impact on the level of disclosure in the financial statements. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.	January 1st 2013
IFRS 9 *Financial Instruments (2009)*	This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: • financial assets measured at amortized cost; or • financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: • the assets is held within a business model whose	The Group does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Group's financial assets are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial assets that it holds.	January 1st 2015

Standard/Interpretation not yet endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
	objective is to hold assets in order to collect contractual cash flows; and, • its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual instrument-by-instrument basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.		
Additions to IFRS 9 *Financial Instruments(2010)*	The 2010 additions to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities. The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss.	It is expected that the additions to the Standard, when initially applied, will have a significant impact on the financial statements, since they will be required to be retrospectively applied. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application. The Group has not yet decided on the date that it will initially apply the new Standard.	January 1st 2015

Standard/Interpretation not yet endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
	However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity. Derivative financial instruments that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.		
Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*	These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 *Financial Instruments* (2009) and IFRS 9 (2010). The amended IFRS 7 requires an entity to disclose more details about the effect of the initial application of IFRS 9, when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9. If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application. If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 9. If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended	It is expected that the Amendments, when initially applied, will not have a material impact on the Group's financial statements. The classification and measurement of the Group's financial assets are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial assets that it holds.	January 1st 2015

(all amounts in PLN '000)

Standard/Interpretation not yet endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
	IFRS 7 are required.		
IFRS 10 *Consolidated Financial Statements*" and IAS 27 (2011) *Separate Financial Statements*	IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvements with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns. The new standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).	The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.	January 1st 2013
IFRS 11 *Joint Arrangements*	IFRS 11, *Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: • a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. • a joint venture is one whereby the jointly	The Group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to change the accounting treatment of existing joint arrangements.	January 1st 2013

(all amounts in PLN '000)

Standard/Interpretation not yet endorsed by the EU	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	controlling parties, known as joint venturers, have rights to the net assets of the arrangement. IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations, under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.		
IFRS 12 *Disclosure of Interests in Other Entities*	IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.	It is expected that the new Standard IFRS12, when initially applied, will have a significant impact on the level of disclosure in the financial statements. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.	January 1st 2013
IFRS 13 *Fair Value Measurement*	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing	The entity does not expect IFRS 13 to have a material impact on the financial statements since the management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.	January 1st 2013

Standard/Interpretation not yet endorsed by the EU	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.		
Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*	The amendments: • require that an entity presents separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of OCI are presented before related tax effects then the aggregated tax amount should be allocated between these sections. • change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.	The amendment is not expected to have a material impact on the Group's financial statements.	July 1st 2012
Amendments to IAS 12 *Income taxes - Deferred Tax: Recovery of Underlying Assets*	The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40. It introduces a rebuttable presumption that the carrying value of underlying assets would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.	The Group does not expect the amendments to have any impact on the financial statements, since they will not affect the Group's accounting policy. The measurement of deferred tax assets and liabilities relating to investment properties measured using the fair value model in IAS 40 will not change.	January 1st 2012

(all amounts in PLN '000)

Standard/Interpretation not yet endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
IAS 19 (2011) *Employee Benefits*	The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the option to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.	The Group does not expect the amendments to have a significant impact on the financial statements, since it does not change the Group's accounting policy. The Group continues to recognise actuarial gains and losses in other comprehensive income.	January 1st 2013
IAS 27 (2011) *Separate Financial Statements*	IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.	[In consolidated financial statements there is no need to separately disclose the change in IAS 27 since the remaining portion of IAS 27 relates only to separate financial statements and the portion of IAS 27 that relates to the consolidated financial statements should be addressed as part of the IFRS 10 discussion.]	January 1st 2013
IAS 28 (2011) *Investments in Associates and Joint Venutres*	There are limited amendments made to IAS 28: • *Associates and joint ventures held for sale.* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for	The Group does not expect the amendments to Standard to have a material impact on the financial statements since it does not have any investments in associates or joint ventures that will be affected by the amendments.	January 1st 2013

(all amounts in PLN '000)

Standard/Interpretation not yet endorsed by the EU	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
	sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. • *Changes in interests held in associates and joint ventures*. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.		
Amendments to IAS 32 *Financial Instruments: Presentation*- Offsetting Financial Assets and Financial Liabilities	The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: • not contingent on a future event; and • enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.	January 1st 2014
IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine*	The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets. To the extent that benefits from production stripping activities are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 *Inventories*.	The Group does not expect the Interpretation to have any impact on the financial statements since it does not conduct any stripping activities.	January 1st 2013

(all amounts in PLN '000)

Standard/Interpretation not yet endorsed by the EU	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met: • it is probable that future economic benefits will flow to the entity; • the entity can identify the component of the ore body for which access has been improved; and • the costs relating to the stripping activity associated with that component can be measured reliably. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. The stripping activity asset shall initially be recognised at cost, while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part. The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a 'relevant' production measure.		

b) Basis of accounting

These annual consolidated financial statements for the period January 1st–December 31st 2011 were prepared in compliance with the historical cost convention, with the exception of financial derivatives and investments in real property which were measured at fair value.

The consolidated financial statements of Pfleiderer Grajewo Group have been prepared on assumption that the Pfleiderer Grajewo Group will be able to continue as a going concern in the foreseeable future. Additional explanations in Note. 25

c) Functional and presentation currency

All figures disclosed in these consolidated annual financial statements for the period January1st–June 30th 2009 are expressed in the złoty (PLN) and rounded to the nearest thousand, unless indicated otherwise.

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

d) Estimates and judgments

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

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

6. Adopted accounting policies

The Group's accounting policies were applied consistently and conform with the accounting policies applied in the previous financial year.

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the parent.

Control is the power to govern, directly or indirectly, the financial and operating policies of a given entity in order to obtain benefits from its activities. The degree of control is assessed based on the existing and potential voting rights that can be exercised or converted as at the balance-sheet date.

Financial statements of subsidiaries are consolidated from the date on which control of a given company is assumed to the date it expires.

(ii) Investments in jointly-controlled entities

Interests in joint ventures are investments jointly controlled by the Group. It is assumed that the Group has joint control if strategic financial and operating decisions require unanimous consent of the parties sharing control. Investments in jointly-controlled entities are accounted for with the equity method, based on financial data derived from their financial statements prepared as at the end of the same reporting period as the separate financial statements of the parent, using the same accounting policies with respect to similar transactions and other events in comparative periods. Investments are initially recognised at cost, which includes transaction costs.

(all amounts in PLN '000)

The consolidated financial statements include the Group's share in profits and losses and other comprehensive income (after adjustments to align the accounting policies), from the date that joint control is acquired until the date that joint control is lost. When the Group's share in losses exceeds the value of its interest in a jointly-controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to zero. Further losses are not recognised, except for losses resulting from obligations contracted by the Group or from payments made on behalf of the jointly controlled entity.

(iii) Consolidation adjustments

Balances of intra-Group settlements among the Group's entities, transactions between the Group's entities and all related unrealised gains or losses, as well as the Group's income or expenses are eliminated while preparing the consolidated financial statements.

b) Foreign currencies

(i) Transactions in foreign currencies

Any transaction expressed in a foreign currency is disclosed in the złoty on the transaction date, translated at the ask or bid exchange rate for a given currency as determined for the transaction date by a given company's bank. Cash items of assets and liabilities expressed in foreign currencies are translated as at the reporting date at the mid exchange rate quoted by the National Bank of Poland for a given currency for that date. Currency-translation differences on the settlement of transactions denominated in foreign currencies and balance-sheet valuation of foreign-currency assets and liabilities are recognised in profit or loss of the period. Non-cash items of assets and liabilities measured at historical cost in foreign currencies are translated at the mid exchange rate quoted by the National Bank of Poland for a given currency for the transaction date.

	Exchange rates used to translate items of the statement of financial position	
	Dec 31 2011	**Dec 31 2010**
EUR	4.4168	3.9603
USD	3.4174	2.9641
GBP	5.2691	4.5938
RUB	0.1061	0.0970

(ii) Translation of foreign operations

As at the reporting date, assets and liabilities of foreign subsidiaries are translated at the mid exchange rate quoted by the National Bank of Poland for a given currency for the reporting date. Income and expenses are translated at the weighted average exchange rate quoted by the National Bank of Poland for a given reporting period. The related currency-translation differences are recognised under other comprehensive income and disclosed in the statement of changes in equity as a separate item. At the time of disposing of a foreign entity, accumulated currency-translation differences are disclosed in profit or loss for current period.

(iii) Net investments in foreign operations

Exchange differences relating to cash items in the form of foreign operation's receivables, whose settlement is not planned or probable in the foreseeable future, constitute part of net investments in foreign operation and are recognised under other comprehensive income and presented in equity under exchange differences on translation of subsidiaries.

c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise loans advanced and receivables, as well as liabilities measured at amortised cost.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised from the statement of financial position if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised from the statement of financial position if the Group's obligations specified in the contract expire or are discharged or cancelled.

For principles governing the recognition of finance income and finance costs, see note item o).

Loans advanced and receivables

Loans advanced and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially carried at fair value plus direct transaction costs, and subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.

Loans advanced and receivables include trade and other receivables, as well as cash and cash equivalents.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted using the market interest rate as at the date of the statement of financial position.

Cash and cash equivalents comprise cash in hand and demand deposits at banks. The cash and cash equivalents balance presented in the statement of cash flows comprise the abovementioned cash and cash equivalents less the overdrafts representing an integral part of cash management at the Company.

Factoring of receivables

The Group may transfer financial assets in such a way that a part of them will not qualify for derecognition. If an entity neither transfers nor retains substantially all the risk and rewards related to holding of the transferred financial asset and retains control over the transferred financial asset, it continues to recognise the transferred asset to the extent of its continuing exposure. The extent of the entity's continuing exposure in the transferred asset is the extent to which the entity is exposed to the risk of changes in the value of the transferred asset.

If the entity continues to recognise an asset to the extent of its continuing exposure, it also recognises the related liability, which is measured in such a way as to reflect the rights and obligations that the entity retained with respect to the asset.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value plus direct transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

The Group's financial liabilities measured at amortised cost comprise: liabilities under borrowings, other debt instruments, and trade and other payables.

The fair value for disclosure purposes is determined based on the present value of future cash flows from repayment of capital and interest, discounted using the market interest rate as at the date of the statement of financial position.

(ii) Financial derivatives

The Group uses financial derivatives, mainly forward contracts to hedge its currency-exchange risk exposures related to its operating, financing or investing activities.

At the time of initial recognition, financial derivatives are disclosed at acquisition cost; thereafter they are measured at fair value. Gains and losses on measurement at fair value are immediately disclosed in profit or loss of the period. However, if financial derivatives are classified as hedging instruments, the disclosure of gains or losses on measurement at fair value depends on the type of the item hedged with such derivatives.

At inception, the Group formally documents the relationship between the hedging instrument and the hedged item. The documentation includes the risk management objective and a strategy for undertaking the hedge, as well as methods to be used by the Group to assess the hedge effectiveness.

The Group assess, both at inception and in subsequent periods, whether it is justified to expect that the hedging instruments will remain "highly effective" in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the entire period for which the hedge was undertaken, as well as whether actual results are within a range of 80-125%. Cash flow hedges are applied for highly probable forecast transactions bearing risk of changes in cash flows whose effects would be recognised in profit or loss of the period.

The fair value of a currency forward is estimated by discounting the difference between the transaction price and the current forward rate for the period ending on the contract execution date, applying a risk-free rate (based on treasury bills).

Cash-flow hedges

If a financial derivative is designated to hedge volatility in cash flows related to a specific risk connected with a recognised asset, liability or a highly probable forecast transaction which could impact the current period's profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as a separate hedging item in equity. Gains or losses previously recognised in other comprehensive income are transferred to the current period's profit or loss in the same period and under the same item in which hedged cash flows are recognised in the statement of comprehensive income. The ineffective portion of changes in fair value of the derivative instrument is recognised immediately in the current period's profit or loss.

If a hedging instrument no longer meets the criteria for hedge accounting, it expires or is sold, terminated or exercised, or its designation is changed, the Company ceases to apply hedge accounting. Accumulated gains or losses previously recognised in the statement of comprehensive income and presented under equity remain in equity until the forecast transaction is executed and recognised in profit or loss of the period. If the forecast transaction is not to be effected, the gains or losses previously recognised in the statement of comprehensive income are immediately recognised as the current period's profit or loss. Otherwise, amounts previously recognised in the statement of comprehensive income are disclosed in profit or loss of the period in the same period or period in which the hedged transaction impacts the profit or loss for current period.

d) Property, plant and equipment

(i) Owned property, plant and equipment

Property, plant and equipment are recognised in the books at acquisition or production cost, less depreciation charges and impairment losses.

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, less any deductible taxes: VAT and excise tax), public charges (in the case of imports), and costs directly related to the acquisition and adaptation of the asset for use, including the cost of transport, loading, unloading and storage. Rebates, discounts and other similar concessions and returns decrease the asset acquisition cost. The production cost of property, plant and equipment or a tangible asset under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date), including non-deductible VAT or excise tax. The production cost comprises also the estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such estimation is required. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment or a tangible asset under construction. The production cost includes also the cost of pilot production less net revenue from the sale of the pilot production.

If a specific item of property, plant and equipment consists of separate and material components with different economic useful lives, such components are treated as separate assets.

Gain or loss on disposal of an item of property, plant or equipment is estimated as a difference between the disposal proceeds and the value of the asset disclosed in the statement of financial position, and is recognised in current period's profit or loss.

(ii) Reclassification of investment property

When property is no longer used for own needs of for investment purposes, it is measured at fair value and reclassified to investment property. Any gains on fair value measurement are recognised in the current period's profit or loss, up to the amount by which they offset previous losses on impairment of given property. The remaining gains are recognised in other comprehensive income and disclosed in revaluation reserve. Any losses are recognised as the current period's profit or loss.

(iii) Property, plant and equipment used under lease agreements

Lease agreements under which en entity assumes substantially all the risks and benefits resulting from the ownership of the property, plant and equipment, are classified as finance lease agreements.

Upon initial recognition, items of property, plant and equipment acquired under finance lease agreements are measured at the lower of their fair value or present value of the minimum lease payments, and subsequently reduced by depreciation and impairment losses. Capitalised property, plant and equipment used under lease agreements are depreciated over their estimated useful economic lives.

Lease agreements under which the lessor retains substantially all potential risks and benefits resulting from the ownership of the leased asset are classified as operating lease agreements.

(iv) Subsequent expenditure

The Group entities capitalise future expenditure on replacement of an item of property, plant and equipment, if such expenditure may be reliably estimated and if the Group is likely to derive economic benefits from such replacement. Other expenditure is recognised in the current period's profit or loss as it is incurred.

(v) Depreciation

Items of property, plant and equipment, or substantial and individual elements thereof, are depreciated over their useful economic lives using the straight-line method, taking into account the residual value. Land is not depreciated.

The Group has adopted the following length of useful lives for particular categories of tangible assets:

Buildings	25 to 40 years
Plant and equipment	3 to 25 years
Vehicles	5 to 8 years
Other tangible assets	4 to 8 years

The correctness of the applied useful economic lives, depreciation methods and residual values of property, plant and equipment is reviewed as at the end of each reporting period and adjusted if appropriate.

e) Intangible assets

(i) Goodwill

Any business combination other than combination of companies under joint control is accounted for by use of the purchase method. Goodwill is computed as the excess of costs incurred as a result of the combination over the acquirer's share in the fair value of the identifiable assets, liabilities and contingent liabilities.

Following the initial recognition, goodwill is recognised at acquisition cost less cumulative impairment loss.

Goodwill is allocated to cash generating units and tested for impairment once a year or more often upon the occurrence of any events or changes which may result in an impairment of the carrying amount of goodwill.

In the case of business combinations with respect to which an excess of identifiable net assets over the acquisition cost was recognised, the relevant amount is charged to the current period's profit or loss.

(ii) Other intangible assets

Intangible assets acquired in a separate transaction are recognised at acquisition cost less amortisation charges and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits to be generated by the asset. Other expenditure is recognised in the current period's profit or loss as it is incurred.

(iv) Depreciation

Intangible assets are amortised with the straight-line method over their useful economic lives, unless their lives are indefinite. Goodwill and intangible assets with indefinite useful economic lives are not amortised; instead they are tested for impairment as at each reporting date. Other intangible assets are amortised from the date of their placement in use. The estimated useful economic lives of intangible assets are as follows:

Licences	2 to 3 years
Computer software	2 years

The correctness of the applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed as at each balance-sheet date and adjusted if appropriate.

f) Investment property

Investment property is held to earn rentals and/or for capital appreciation. Investment property is not held for sale as part of normal operations, nor is it used in the manufacturing process, supply of goods and services, or for administrative purposes. Investment property are initially measured at acquisition cost, and later at fair value. Any gains or losses on change in fair value are charged to the current period's profit or loss.

g) Inventories

Inventories are recognised at the lower of their acquisition or production cost or net realisable price. Net realisable price is the selling price estimate made in the course of business, less estimated cost to complete and estimated costs necessary to close the sale.

The acquisition and production costs are determined in the following manner:

Materials and merchandise – acquisition cost; decreases are measured using the weighted average method.

Finished products and work in progress – cost of direct materials and labour and an appropriate portion of indirect production costs, calculated on the basis of normal production capacity.

h) Impairment losses

(i) Financial assets

An impairment loss on a financial asset is recognised if there is objective evidence of impairment as a result of one or more events which may have an adverse impact on future cash flows related to a given financial asset.

The amount of an impairment loss on a financial asset measured at amortised cost is estimated as the difference between the asset's carrying amount recognised in the statement of financial position and the present value of the future cash flows, discounted using the original effective interest rate. Impairment losses on financial assets available for sale are computed by reference to the assets' present fair value.

Each material financial asset is tested for impairment as at each reporting date. Other financial assets are divided into groups with similar credit risk and assessed for impairment collectively.

Impairment losses are recognised as the current period's profit or loss.

Impairment losses are reversed if a subsequent increase in the recoverable value can be objectively attributed to an event occurring after the impairment recognition date. In such a case, the amount of the reversal is recognised as the current period's profit or loss.

(ii) Non-financial assets

The carrying amount of non-financial assets other than inventories and deferred tax asset recognised in the statement of financial position is tested for impairment as at each reporting date. If the Group has a reason to suspect that a given asset's value has been impaired, it estimates its recoverable amount.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit recognised in the statement of financial position is higher than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets which generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Impairment losses are recognised as the current period's profit or loss. Impairment of a cash-generating unit is initially recognised as a decrease in goodwill allocated to that cash-generating unit (a group of cash-generating units), and subsequently as a decrease in the carrying amount of the other assets belonging to that cash-generating unit(a group of cash-generating units) recognised in the statement of financial position on a pro-rata basis.

The recoverable amount of goodwill is estimated at each reporting date.

The recoverable amount of assets of cash-generating units is higher of an asset's fair value less costs to sell and its value in use. Value in use is calculated by discounting present value of estimated future cash flows with a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets which do not generate independent cash flows, value in use is estimated for the assets' smallest identifiable cash-generating unit.

Impairment losses on goodwill are not reversible. As far as other assets are concerned, at each reporting date impairment losses recognised in prior periods are reviewed to determine if there is any evidence that they no longer exist or have decreased. An impairment loss recognised in prior periods is reversed if the estimates used to determine the asset's recoverable amount have changed. An impairment loss is reversed only up to the carrying amount of the asset (net of amortisation and depreciation) that would have been disclosed had no impairment loss been recognised.

i) Equity

(i) Ordinary shares

Ordinary shares are disclosed under equity. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

(ii) Dividends

Dividends are recognised as liabilities in the period in which the dividend resolution was adopted.

j) Employee benefits

(i) Defined contribution plan

Under the applicable regulations, the Group is required to withhold and pay contributions for future pension benefits of its employees. According to IAS 19, the benefits form a state plan which is a defined contribution plan. In connection with the above, the Group's liabilities for each period are recognised based on the contributions payable in a given year.

(ii) Other non-current employee benefits - retirement severance pays

In accordance with the remuneration rules, employees of Pfleiderer Grajewo S.A, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Jura Polska Sp. z o.o. are entitled to receive retirement severance pays (upon retirement).

The Group's liabilities under severance pays are determined by estimating the amount of future remuneration of the employee in the period in which the employee will reach retirement age, and by estimating the amount of the future severance pay. The severance pays are discounted to present value. Liabilities under severance pays are disclosed pro rata to the expected length of employment.

The value of future liabilities is calculated by a qualified actuary using the projected unit cost method. The employee turnover is estimated based on historical data and projections concerning future employment levels.

Any changes between the balance of employee benefits payable as at the beginning and the end of a reporting period are recognised as the current period's profit or loss.

(iii) Payments in the form of the parent's shares

As part of a programme providing for payments in the form of the ultimate parent shares, the Group's employees have the possibility to acquire shares in Pfleiderer AG. The fair value of a stock option granted is disclosed as an expense under salaries and wages, with a corresponding increase in equity. The fair value is measured as at the option grant date and recognised over the vesting period. The fair value of options is estimated with the use of the Black-Scholes model, with due regard to the terms and conditions on which the options were granted. The amount charged to costs is adjusted to reflect the number of options outstanding at a given time, in respect of which service and non-market-related vesting conditions have been satisfied.

k) Provisions

Provisions are created when the Group has a liability (legal or following from commercial practice) resulting from past events and when it is probable that a discharge of this liability would cause an outflow of funds representing economic benefits, and the amount of the liability may be reliably estimated. If the effect of time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to present value at gross discount rates reflecting the current market estimates of the time value of money and risks, if any, related to a given liability. If the discounting method is applied, an increase in provisions as a result of lapse of time is disclosed as cost of external funding.

l) Revenue

(i) Revenue from sale of finished products/merchandise and services

Revenue from sale of finished products/merchandise is recognised at the fair value of the payment received, less the value of any returns, discounts and rebates.

Revenue is recognised after significant risks and benefits incidental to the ownership of finished products and merchandise have been transferred to the purchaser, and if the revenue amount may be reliably estimated. The revenue is not recognised if the future economic benefits, determination of the costs incurred, or the possibility of return of finished products/merchandise is highly uncertain, or if the Company is engaged in the management of the sold finished products/merchandise on a permanent basis.

Revenue from provision of services is recognised in profit or loss of the period pro rata to the degree of completion of a service as at the reporting date. The progress is determined on the basis of the works performed.

(ii) Government grants

A government grant is recognised in the statement of financial position only when there is reasonable assurance that the grant will be received and the Group will comply with any conditions attached to the grant. Grants received as compensation for costs already incurred are recognised as income on a systematic basis in the periods when the costs related to the grants are incurred. Grants received as compensation for costs of assets disclosed by the Group are recognised in the of comprehensive income on a systematic basis as other operating income for the period when the assets are used.

In addition to monetary government grants, the Group recognises government grants receivables and deferred income under government grants. In order to assess the amount of government grants to be utilised in the following financial years, the Group established the total amount of the potential tax payable on the tax-exempt income generated by it from the business conducted in the special economic zone in the individual periods during which the tax exemption applied, based on the current approved budgets for the following financial years. The amount of the government grants is estimated as a realisable value, i.e. not higher than the future income tax liabilities or the maximum amount calculated on the basis of the regulations applicable to special economic zones. Given the fact that budgets are adjusted and updated over the years, at the end of each financial year in which the tax relief is used, the Group makes an updated estimate of its amount based on the updated budgets for the following financial years.

The Group amortises the government grants. For that purpose, the Group compiles a list of the property, plant and equipment (along with the applicable depreciation charges) in the case of which the capital expenditure incurred for such assets in the particular years is taken into account in calculating the amount of the government assistance in the period of conducting operations in the special economic zone. Based on the above data, the Group estimates the weighted average depreciation charge for the property, plant and equipment. In the following accounting periods the Group amortises the government grants disclosed as deferred income using the weighted average depreciation rate calculated for the property, plant and equipment the acquisition of which served as the basis for establishing the amount of the government grants. Decreases in deferred income are recognised as income or loss for current period.

The Group also amortises the government grants asset. For this purpose, at least at the end of every financial year, the Group reduces the government grants asset by the amount of the government grants utilised in a given financial year, in correspondence with a mandatory decrease of profit on account of corporate income tax.

m) Payments under operating leases

Payments under operating lease agreements concluded by the Group are recognised in the statement of comprehensive income on a straight-line basis during the lease term.

n) Payments under finance leases

Part of the minimum lease payments is disclosed under finance costs, the remainder reduces the balance of outstanding lease liabilities. The lease principal is allocated to the individual reporting periods as to obtain a fixed interest rate on the outstanding amount of the lease liability.

o) Net finance income and expenses

Finance income includes interest receivable from cash invested by the Group, gains on changes in the fair value of financial instruments at fair value through profit or loss, and foreign exchange gains. Interest income is presented in the income statement on an accrual basis using the effective interest rate method.

Finance costs include interest payable on borrowings, unwinding of the discount on provisions, foreign exchange losses, losses resulting from changes in the fair value of financial instruments at fair value through profit or loss, and financial assets impairment. Interest payable is presented using the effective interest rate method.

Foreign exchange gains and losses are posted in net amounts.

p) Corporate income tax

Corporate income tax recognised in the income statement comprises the current and deferred portion. The current and deferred portion of corporate income tax are recognised in profit or loss of the period, unless it relates to items disclosed directly under equity or as other comprehensive income.

The current portion of the income tax is the tax liability for the given year, determined using the tax rates applicable at the reporting date, and including any adjustments of the tax due for the previous years.

The deferred income tax is determined with the use of the balance-sheet liability method in relation to all temporary differences existing as at the reporting date between the tax value of assets and liabilities and their carrying amount recognised in the statement of financial position and disclosed in the consolidated financial statements.

Deferred tax asset is disclosed in relation to all deductible temporary differences as well as unused tax losses brought forward, in the amount of the probable taxable income which would enable these differences and losses to be used. Carrying value of a deferred tax asset is reviewed as at each reporting date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of this deferred tax asset would be generated.

Deferred tax asset and deferred tax liability are calculated using tax rates expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) actually or legally in force as at the reporting date.

q) Profit /(Loss) per share

The Group presents basic and diluted profit/(loss) per share for ordinary shares. Basic profit/(loss) per share are calculated by dividing the profit/(loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted profit/(loss) per share is calculated taking into account the profit/(loss) attributable to holders of ordinary shares, the average number of ordinary shares, and instruments (if any) with a dilutive effect.

r) Determination and presentation of operating segments

the Group determines and presents operating segments based on the information that is internally provided to its chief operating decision makers.

An operating segment is a Group component that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of the operating segments for which financial information can be identified are reviewed regularly by the management to make decisions about resources to be allocated and assess their performance.

Segment results reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general and administrative assets of the Company, office expenses and income tax assets and liabilities.

Capital expenditure of a segment includes expenditure on purchase of property, plant and equipment and intangible assets other than goodwill.

Notes to the Annual Consolidated Financial Statements

(all amounts in PLN '000)

1 Operating segments

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

Operating Segments	Companies comprising the segment	Business profile
Poland	PFLEIDERER GRAJEWO S.A.	Production of chipboard
	Jura Sp. z o.o.	Transport services - mainly for Polish companies of Pfleiderer Grajewo Group
	Pfleiderer Prospan S.A.	Production of chipboard
	Unifloor Sp. z o.o.	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

Information on geographical segments

Sales revenue by country of customer's registered office:

Domestic sales	**Jan 1–Dec 31 2011**	**Jan 1 – Dec 31 2010**
Poland	994,481	839,599
Russia	340,882	238,228
Germany	98,572	87,681
Lithuania	74,073	62,257
Kazakhstan	54,303	40,967
Belarus	34,163	29,856
Czech Republic	17,603	4,939
Sweden	14,400	15,910
Ukraine	14,139	4,047
Latvia	11,927	8,563
Uzbekistan	8,215	5,461
Estonia	7,717	7,649
United Kingdom	7,543	5,182
Slovakia	7,449	4,498
Denmark	7,055	4,616
Finland	6,989	4,084
The Netherlands	5,354	3,225
Azerbaijan	4,550	2,511
Romania	2,924	1,258
Moldova	2,525	2,600
Hungary	2,448	1,676
Bulgaria	957	715
United States	528	7,520
Other countries	6,434	7,346
Total	1,725,231	1,390,388

(all amounts in PLN '000)

Information on Products and Services

By product group	Jan 1–Dec 31 2011	Jan 1 – Dec 31 2010
Revenue from sale of products	**1,618,043**	**1,302,774**
Chipboard	1,165,266	954,807
MDF boards	230,945	183,171
Adhesive resins	150,518	102,561
Other	71,314	62,235
Revenue from sale of materials	**5,348**	**3,875**
Revenue from sale of merchandise	**78,211**	**65,341**
Revenue from rendering of services	**23,629**	**18,398**

Key customers

Given the nature of the Group's business and its sales structure, it is not possible to identify a key customer. In the financial years ended December 31st 2011 and 2010, no customer's share exceeded 10% of the Group's total sales.

Segmental information

In 2011, the Group's business was divided into segments based on by geographical regions (Poland, Russia) for reporting purposes.

Segments' profit relate to profit generated by each segment, without allocating finance income and expenses and income tax, as these items are monitored at the Group level and cannot be allocated. Inter-segment sales are executed on an arm's length basis.

(all amounts in PLN '000)

Operating segments

The Group continues its business in all operating segments.

	Poland		Russia		Inter-segment eliminations		Total consolidated figure	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Segment's revenue from external customers	1,326,806	1,111,866	398,425	278,522	0	0	1,725,231	1,390,388
Revenue from inter-segment transactions	78,731	60,024	0	0	(78,731)	(60,024)	0	0
Total revenue	1,405,537	1,171,890	398,425	278,522	(78,731)	(60,024)	1,725,231	1,390,388
Total costs [1]	(1,294,268)	(1,118,122)	(373,371)	(284,504)	78,613	59,338	(1,589,026)	(1,343,288)
Operating profit/(loss)	111,269	53,768	25,054	(5,982)	(117)	(686)	136,205	47,100
Finance income/costs							(97,458)	(81,870)
Tax							(17,012)	4,339
Net profit/loss							21,735	(30,431)
Segment's non-current assets	1,167,629	1,104,801	667,947	618,979	(332,069)	(252,794)	1,503,507	1,470,986
Segment's current assets	549,343	334,078	116,292	101,267	(266,316)	(90,188)	399,319	345,157
Other assets [2]							33,144	36,328
Total assets							1,935,970	1,852,471
Segment's operating liabilities	270,516	235,044	91,888	81,086	(24,624)	(22,277)	337,780	293,853
Other liabilities[3]							1,031,709	1,062,443
Capital expenditure[4]								
property, plant and equipment	14,466	3,305	46,454	35,567	0	0	60,920	38,872
Intangible assets	0	3	817	233	0	0	817	236
Amortisation								
Depreciation/amortisation of property, plant and equipment	(41,605)	(61,054)	(32 645)	(34,504)	(142)	(142)	(74 392)	(95,700)
Depreciation/amortisation of intangible assets	(2,609)	(2,832)	(522)	(474)	0	0	(3,131)	(3,306)

1. Total costs comprise cost of sales, distribution costs, general and administrative expenses, and the result on other operating activities.
2. Unallocated assets include cash, income tax receivables and deferred tax assets.
3. Unallocated liabilities include income tax payable, deferred tax liability, borrowings and other debt instruments
4. Based on invoices for the period

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 Goodwill

Analysis of goodwill impairment

As at December 31st 2011, the Parent's Management Board estimated the recoverable amount of the goodwill.

Goodwill was allocated to cash-generating units. Recoverable amount of cash-generating units was determined based on a calculation of its value in use, defined with respect to the operations of Pfleiderer Prospan S.A. Such calculation is made using the projected cash-flows adopted in the five-year financial budgets approved by the Management Board. Cash flows extending beyond the period of five years are extrapolated at a 3% growth rate, which does not exceed the average long-term growth rate for the production sector in Poland. The growth rate does not exceed the long-term average growth rate for the production sector in Poland.

The key assumptions used to calculate the unit's value in use were as follows:

- growth rate beyond the five-year period covered by the budget – 3%;
- discount rate – 9.9%.

The Management Board established the budget assumptions, which form a basis for impairment testing, based on the past results and the Management Board's forecasts of market development. A discount rate was applied to reflect the risks specific to a given operating segment. 6.0% rate of return on 10-year government bonds was assumed as the risk-free rate. The projected cash flows followed from the budgets for the years until 2016 approved by the Management Board. Cash flows for further five years are determined by extrapolating the results for 2016 at a fixed growth rate of 3%.
The analysis did not reveal any goodwill impairment as at December 31st 2011.

(all amounts in PLN '000)

4 Other operating income

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Profit on sale of property, plant and equipment	374	42
Reversal of impairment loss on receivables	300	1,660
Compensations and penalties received	993	168
Reversal of accruals and deferred income	207	438
Public aid	1,188	2,762
Other operating income	2,449	3,153
Total	**5,511**	**8,223**

Other operating income includes in particular income for released provisions under transport services (PLN 583 thousand) and income from compensations (PLN 315 thousand).

5 Other operating expenses

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Loss on disposal of property, plant and equipment	0	447
Revaluation of receivables	2,719	2,319
Receivables written-off	168	6
Damages paid	396	490
Recognition of accruals and deferred income	1,637	620
Expenses related to suspension of construction of the MDF plant in Russia	8,826	8,596
Other operating expenses	7,491	3,414
Total	**21,237**	**15,892**

Other operating expenses include VAT, which is not deductible (PLN 1,937 thousand), non tax-deductible expenses (PLN 1,822 thousand) and legal fees (PLN 781 thousand).

6 Cost of employee benefits

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Salaries and wages payable	90,767	82,668
Employee benefits	23,526	19,510
Decrease in liabilities related to length-of-service awards	0	(1,107)
Increase in liabilities related to retirement severance pays	730	887
Decrease in provision for employee claims	(6)	(1,912)
Change in liabilities related to holidays	354	(1,046)
Increase in liabilities related to bonus payment	3,086	34
Total	**118,457**	**99,034**

(all amounts in PLN '000)

7 Finance income and expenses

Disclosed in profit or loss of the period:

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Interest income	621	551
Income from forward contracts	0	2,105
Net foreign exchange gains	4,559	6,440
Other finance income	7	0
Finance income	5,187	9,096
Interest expense	(97,225)	(85,938)
Loss on forward contracts	(2,665)	0
Other finance costs	(2,755)	(5,028)
Finance costs	(102,645)	(90,966)
Net finance costs	**(97,458)**	**(81,870)**

The above finance income and expenses include the following items of income and expenses related to assets and liabilities other than measured at fair value through profit or loss:

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Interest income	621	551
Interest expense	(97,225)	(85,938)
	(96,604)	(85,387)

Recognised under other comprehensive income

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Effective portion of profit on fair-value measurement of cash-flow hedging instruments	(589)	589
Exchange differences on net investments in subsidiaries	19,531	4,135
	18,942	**4,724**

(all amounts in PLN ‘000)

8 Costs by nature of expense

	Jan 1 2011– Dec 31 2011	Jan 1 2010– Dec 31 2010
Materials and energy used	950,661	778,652
Amortisation	77,523	99,006
Services	140,453	114,561
Taxes and charges	16,267	15,034
Employee benefits	118,457	99,034
Cost of merchandise and materials sold	199,183	159,939
Other costs	87,539	65,454
Total costs	**1,590,083**	**1,331,680**
Change in inventories of finished products and accruals and deferrals	(20,210)	3,605
Cost of products and services for own needs	3,427	334
Total operating expenses	**1,573,300**	**1,335,619**
including:		
Distribution costs *)	106,086	92,627
General and administrative expenses *)	84,509	80,630
Cost of sales *)	1,382,705	1,162,362

*) Year 2010 converted

(*) With effect from 2011, the Pfleiderer Grajewo Group changed the method of allocating costs presented in the statement of comprehensive income. Consequently, certain costs originally presented under general and administrative expenses are now allocated to the cost of sales or distribution costs. The change did not affect the operating profit. If the Group reclassified the comparative data for Q1-Q4 2010. Before reclassification cumulative cost of sales amounted to approximately PLN 1,128 m, distribution costs - to approximately PLN 92m, and general and administrative expenses - to approximately PLN 115m, with operating profit/loss remaining unchanged.

9 Corporate income tax

	Jan 1– Dec 31 2011	Jan 1– Dec 31 2010
Corporate income tax		
Current portion of income tax	11,203	4,281
	11,203	4,281
Deferred income tax		
Relating to origination and reversal of temporary differences	(980)	(8,001)
Tax loss	6,789	579
Change in tax rate	0	(1,198)
	5,809	(8,620)
Income tax disclosed in profit or loss of the period	17,012	(4,339)

(all amounts in PLN '000)

Reconciliation of income tax on pre-tax loss at the statutory tax rate to income tax calculated at the effective tax rate:

	%	Jan 1 2011–Dec 31 2011	%	Jan 1–Dec 31 2010
Pre-tax loss		**38,747**		**(34,770)**
Tax at domestic rate	19.00%	7,362	19.00%	(6,606)
Effect of foreign tax rates	(0.52%)	(200)	0.4%	(138)
Unrecognised deferred tax assets related to operations in special economic zone	(14.37%)	5,568	(6.10%)	2,120
Non-tax-deductible expenses – permanent differences	12.02%	4,659	(4.62%)	1,605
Non-taxable income – permanent differences	(0.97%)	(377)	0.35%	(122)
Change in tax rate	0.00%	0	3.45%	(1,198)
Effect on income tax	25.42%	9,850	(6.92%)	2,405
Income tax calculated at effective tax rate	43.90%	17,012	12.48%	(4,339)
Income tax disclosed in profit or loss of the period		**17,012**		**(4,339)**

(all amounts in PLN '000)

10 Property, plant and equipment

	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
Gross value					
As at Jan 1 2010	454,756	1,109,642	43,868	160,233	1,768,499
Increase	0	165	(54)	38,760	38,871
Decreases	78	2,646	763	0	3,487
Transfers	266	19,602	831	(21,501)	(802)
Transfer to investment property	(585)	0	0	0	(585)
Effect of exchange differences on translating subsidiaries	2,248	5,669	237	2,815	10,969
As at Dec 31 2010	456,607	1,132,432	44,119	180,307	1,813,465
As at Jan 1 2011	456,607	1,132,432	44,119	180,307	1,813,465
Increase	0	0	31	60,889	60,920
Decreases	0	143	3,369	0	3,512
Transfers	4,100	9,376	380	(13,920)	(64)
Effect of exchange differences on translating subsidiaries	10,311	26,971	1,037	18,916	57,235
As at Dec 31 2011	471,018	1,168,636	42,198	246,192	1,928,044

(all amounts in PLN '000)

	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
Accumulated depreciation and impairment losses					
As at Jan 1 2010	112,658	459,232	25,686	0	597,576
Amortisation	18,242	72,691	4,767	0	95,700
Decreases	48	2,139	723	0	2,910
Reversal of impairment losses	0	(191)	0	0	(191)
Transfer to investment property	(45)	0	0	0	(45)
Effect of exchange differences on translating subsidiaries	147	979	70	0	1,196
As at Dec 31 2010	130,954	530,572	29,800	0	691,326
As at Jan 1 2011	130,954	530,572	29,800	0	691,326
Amortisation	15,524	54,491	4,377	0	74,392
Decreases	0	104	3,341	0	3,445
Reclassification of property, plant and equipment	250	(250)	0	0	0
Effect of exchange differences on translating subsidiaries	2,109	9,159	653	0	11,921
As at Dec 31 2011	148,837	593,868	31,489	0	774,194
Net value					
As at Dec 31 2010	**325,653**	**601,860**	**14,319**	**180,307**	**1,122,139**
As at Dec 31 2011	**322,181**	**574,768**	**10,709**	**246,192**	**1,153,850**

Useful life of property, plant and equipment

In accordance with the adopted accounting policy, in 2010 the Group reviewed the previously adopted useful lives of property, plant and equipment. As a result of the review, useful life of property, plant and equipment was extended.

Finance expenses capitalised in the value of property, plant and equipment

In 2009, the Group temporarily suspended construction of the new plant in Russia. As the decision was upheld in 2011, interest on the project was not capitalised.

Property, plant and equipment under finance lease

As at December 31st 2011, the Group held property, plant and equipment used under finance lease agreements (net value of PLN 342 thousand). As at December 31st 2010, the Group held property, plant and equipment used under finance lease agreements (net value of PLN 386 thousand).

Tangible assets under construction and prepayments for property, plant and equipment

Investment projects at Pfleiderer MDF OOO

As at December 31st 2011, the value of tangible assets under construction, related to the construction of the new MDF plant in Russia was PLN 234,303 thousand. The increase in tangible assets under construction pertained to the settlement of PLN 31,363 thousand from prepayments for property and additional necessary for the resumption of investment expenses of PLN11,457 thousand , plant and equipment expensed in the prior periods. Additionally, in 2011, the Group expensed PLN 26,159 as prepayments for tangible assets under construction.

Other investments

In 2011, other investments involved PLN 3.8m upgrade of the Holzma panel saw, taping machine (PLN 1.0m) forming stations (PLN 1.2m), grinder for bark and oversized biomass components (PLN 1,1m).. The expenditure of PLN 12,4m covered mostly other minor operating projects.

Impairment of non-financial non-current assets

The Management Board carried out an analysis of impairment of non-current non-financial assets as at December 31st 2011.

In order to review the impairment of non-current non-financial assets, their value was allocated to the cash flow generating unit, defined with respect to the operations of the Group members. The recoverable value of non-current non-financial assets was determined based on the value in use of the cash-generating units. The calculations take into account the cash flow projections approved by the Management Board. Cash flows extending beyond the period of five years are extrapolated at a 3% growth rate, which does not exceed the average long-term growth rate for the production sector in Poland. The growth rate does not exceed the long-term average growth rate for the manufacturing sectors in Poland and Russia.

The key assumptions of the analysis concerning impairment of non-current non-financial assets as at December 31st 2011, used to calculate the value in use of cash-generating units, were as follows:

- growth rate beyond the five-year period covered by the budget – 3%;
- discount rates – 9.9% with respect to the Polish companies, and 14.1% with respect to the Russian companies,

The Management Board established the budget assumptions, which form a basis for impairment testing, based on the past results and the Management Board’s forecasts of market development. A discount rate was applied to reflect the risks specific to a given operating segment. In the case of Polish companies, the 6.00% rate of return on 10-year treasury bonds was assumed as the risk-free rate, while with respect to Russian companies the assumed risk-free rate was the 7.53% rate of return on 5-year Russian treasury bonds. The projected cash flows followed from the budgets for the years until 2016 approved by the Management Board. Cash flows for further years (from 15 to 25 years, depending on the company) are determined by extrapolating the results for 2016 at a fixed growth rate of 3%.

(all amounts in PLN '000)

The analysis did not reveal any impairment of non-financial non-current assets as at December 31st 2011.

11 Intangible assets

	Licences, computer software and other
Gross value	
As at Jan 1 2010	24,137
Increase	236
Decreases	3
Transfers	802
Effect of exchange differences on translating subsidiaries	53
As at Dec 31 2010	25,225
As at Jan 1 2011	25,225
Increase	817
Transfers	69
Effect of exchange differences on translating subsidiaries	159
As at Dec 31 2011	26,270
Accumulated depreciation and impairment losses	
As at Jan 1 2010	17,192
Amortisation	3,306
Decreases	1
Effect of exchange differences on translating subsidiaries	24
As at Dec 31 2010	20,521
As at Jan 1 2011	20,521
Amortisation	3,131
Effect of exchange differences on translating subsidiaries	79
As at Dec 31 2011	23,731
As at Dec 31 2010	**4,704**
As at Dec 31 2011	**2,539**

(all amounts in PLN '000)

12 Investments in related entities

The Group's investments in related entities comprise:

	Domestic sales	Value of shares at acquisition cost	Share in equity	
			Dec 31 2011	Dec 31 2010
Pfleiderer Services Sp. z o.o.	Poland	**53**	100%	100%
Blitz 11-446 GmbH	Germany	**64**	50%	-
Total		**117**		

Key financial data of related entities:

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/ (loss)
Jan 1–Dec 31 2011					
Pfleiderer Services Sp. z o.o.	21	0	21	0	0
Blitz 11-446 GmbH	283,563	283,456	107		(3)
	283,584	**283,456**	**128**	**0**	**(3)**
Jan 1–Dec 31 2010					
Pfleiderer Services Sp. z o.o.	22	0	22	0	0
	22	**0**	**22**	**0**	**0**

On December 21st 2011, Pfleiderer Grajewo S.A. and Pfleiderer Service GmbH acquired shares in Blitz 11-446 GmbH of Germany. Each of the companies holds 50% of shares in Blitz 11-446 GmbH. The purchase price paid by Pfleiderer Grajewo S.A. was EUR 14.5 thousand (PLN 64 thousand).
On December 22th 2011, a newly established SPV, Blitz 11-446 GmbH ("Pfleiderer SPV"), purchased components of the production line manufactured by Dieffenbacher and designed to be assembled at the MDF/HDF board production plant in Russia. The value of those components is EUR 53,842,497.01 (PLN 239,265,288.20). The components were purchased in a non-cash transaction and the Pfleiderer Group incurred no expenses related to the purchase. As a result of the transaction, two companies of the Pfleiderer Group, Pfleiderer SPV and Pfleiderer MDF OOO, hold the ownership rights to the entire production line manufactured by Dieffenbacher and designed to be assembled at the MDF/HDF board production plant in Russia.

In order to execute the transaction, on December 22nd 2011 the parent and Pfleiderer AG executed an annex to the agreement of July 2nd 2009 concerning financial collateral under the contract for delivery of the MDF/HDF production line ("the Delivery Contract") concluded between Dieffenbacher and Pfleiderer MDF OOO.

Under the annex, the parent transferred onto Pfleiderer AG a 50% interest in joint ownership of the machinery supplied under the Delivery Contract ("the Parent's Interest in the Machinery"). The Company's Interest in the Machinery was subsequently transferred onto Dieffenbacher and eventually onto Pfleiderer SPV. The value of the Parent's Interest in the Machinery is EUR 17,013,900.00 (PLN 75,606,368.82 PLN).

Moreover, prior to the execution of those transactions the Parent's Interest in the Machinery was released from security created for the benefit of the banks providing financing to the Parent, i.e. Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. and Bank Gospodarki

(all amounts in PLN '000)

Żywnościowej S.A. The release was made in exchange for an assignment by way of security, performed on December 22nd 2011, of the ownership right to the machinery purchased by Pfleiderer SPV. The assignment by way of security secures the repayment of 50% the bank borrowing granted to the parent and 50% of bank borrowings granted to Pfleiderer AG.

Shares in the company Blitz 11-446 GmbH, which is jointly controlled by a Group are taken in consolidated financial statements and are accounted for with the equity method.

13 Other financial assets

	Dec 31 2011	Dec 31 2010
Other non-current financial assets		
Financial assets available for sale	10	10
- shares in companies not listed on a regulated securities market		
	10	10
Total	**10**	**10**
Other current financial assets		
Other financial assets	0	24
- loans advanced	0	24
Total	**0**	**24**

14 Investment property

As at December 31st 2011, the Group disclosed investment property of PLN 4,300 thousand. Remeasurement of the property showed no change in its value.

The investment property includes land held in perpetual usufruct, located at ul. Bolesławiecka in Wieruszów, with a total area of 2.7835ha, which as at December 31st 2011 was not used in the production or supply of goods or services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

As the S-8 express way is planned to be built, passing next to the property, the Group treats the property as a potential future source of rental income and expects a considerable capital appreciation of the property. A procedure aiming to change the property's status from agricultural zone land to construction zone land was initiated in 2010. On November 22nd 2010, the Group received a zoning permit from the Mayor of Wieruszów to construct on the land a commercial building, with the maximum building footprint area of 2,500 square metres. Following the change in the property's zoning status, a qualified property appraiser engaged by the Group estimated the fair value of the property at PLN 4,300 thousand.

(all amounts in PLN '000)

15 Deferred income tax asset and liability

	Assets Dec 31 2011	Liabilities Dec 31 2011	Net Dec 31 2011	Assets Dec 31 2010	Liabilities Dec 31 2010	Net Dec 31 2010
Non-current assets						
Property, plant and equipment	15,863	28,892	(13,029)	2,363	26,661	(24,298)
Investment property	0	597	(597)	0	597	(597)
Investments in related parties	0	12,339	(12,339)	3,818	13,514	(9,696)
Other non-current financial assets	4	0	4	4	0	4
Current assets						
Inventories	1,397	441	956	1,332	435	897
Other current financial assets	610	294	316	353	123	230
Trade and other receivables	1,939	481	1,458	2,702	210	2,492
Investments in related parties	0	7,966	(7,966)	0	0	0
Cash and cash equivalents	0	0	0	0	130	(130)
Non-current liabilities						
Borrowings and other debt instruments	69	756	(687)	196	37	159
Provisions	120	0	120	122	0	122
Employee benefits payable	1,113	0	1,113	1,018	0	1,018
Current liabilities						
Borrowings and other debt instruments	1,487	0	1,487	584	0	584
Trade and other payables	4,350	48	4,302	3,999	578	3,421
Employee benefits payable	1,804	156	1,648	1,295	0	1,295
Total tax loss brought forward	25,959	2,125	23,834	34,700	0	34,700
Deferred income tax asset/liability	54,715	54,095	620	52,486	42,285	10,201
Deferred income tax asset and liability offset	(41,268)	(41,268)		(36,750)	(36,750)	
Deferred income tax asset/liability shown in the statement of financial position	**13,447**	**12,827**		**15,736**	**5,535**	

(all amounts in PLN '000)

Changes related to temporary differences during the reporting period:

	As at Jan 1 2011	Recognised in the Income Statement	Recognised in equity	As at Dec 31 2011
Non-current assets				
Property, plant and equipment	(24,298)	11,269	0	(13,029)
Intangible assets	0	0	0	0
Investment property	(597)	0	0	(597)
Investments in related parties	(9,696)	1,938	(4,581)	(12,339)
Other non-current financial assets	4	0	0	4
Current assets		0		
Inventories	897	59	0	956
Other current financial assets	230	86	0	316
Trade and other receivables	2,492	(1,034)	0	1,458
Investments in related parties	0	(7,966)	0	(7,966)
Cash and cash equivalents	(130)	130	0	0
Non-current liabilities		0		
Liabilities under bank borrowings and other debt instruments	159	(915)	0	(756)
Employee benefits payable	1,018	95	0	1,113
Provisions	122	(2)	0	120
Current liabilities		0		
Liabilities under bank borrowings and other debt instruments	584	524	0	1,108
Trade and other payables	3,421	881	0	4,302
Employee benefits payable	1,295	353	0	1,648
Total tax loss brought forward	34,701	(10,867)	0	23,834
	10,202	**(5,380)**	**(4,581)**	**241**

Exchange differences on translating foreign operations	**(429)**
Change in temporary differences recognised as profit or loss for period	**(5,809)**

(all amounts in PLN '000)

	As at Jan 1 2010	Change in temporary differences recognised in profit or loss for the period	Change in temporary differences recognised in other comprehensive income	As at Dec 31 2010
Non-current assets				
Property, plant and equipment	(25,899)	1,601	0	(24,298)
Intangible assets	149	(149)	0	0
Investment property	0	(597)	0	(597)
Investments in related parties	(4,354)	(4,372)	(970)	(9,696)
Other non-current financial assets	4	0	0	4
Current assets				
Inventories	1,279	(382)	0	897
Other current financial assets	1,459	(1,229)		230
Trade and other receivables	1,036	1,456	0	2,492
Cash and cash equivalents	(940)	810	0	(130)
Non-current liabilities				
Borrowings and other debt instruments	(17)	176	0	159
Employee benefits payable	907	111	0	1,018
Provisions	485	(363)	0	122
Current liabilities				
Borrowings and other debt instruments	1,007	(423)	0	584
Trade and other payables	1,884	1,537	0	3,421
Employee benefits payable	1,483	(188)	0	1,295
Total tax loss brought forward	24,183	10,517	0	34,700
	2,666	**8,505**	**(970)**	**10,201**
Exchange differences on translation of subsidiaries		115		
Change in temporary differences recognised in profit or loss for the period		8,620		

16 Government assistance receivable and deferred income under government assistance

Government assistance receivables include the economic assistance received from the following sources:

Pursuant to an agreement on project co-financing between Pfleiderer MDF Sp. z o.o. (a member of the Group) and the Minister of Economy of October 30th 2006, Pfleiderer MDF Sp. z o.o. received PLN 23,051 thousand as an investment grant to co-finance the construction of the MDF plant with a biomass-fired boiler house.

The grant comprises PLN 22,202 thousand to cover capital expenditure and PLN 849 thousand to cover two-year employment costs connected with the creation of 55 new jobs. These amounts were received by the Group in 2007 and recognised as deferred income. The amount of 22,202 thousand is released to other operating income along with depreciation charges on the property, plant and equipment to which the grant relates. The amount of 849 thousand was charged to other operating income.

On November 10th 2005, Pfleiderer MDF Sp. z o.o. received a permit to conduct business activities in the Suwałki Special Economic Zone ("SSE"), which entitles the company to use government assistance in the form of a corporate income tax exemption, provided that the company satisfies certain conditions which are discussed below.

(all amounts in PLN '000)

The permit to conduct business activities in the Suwałki Special Economic Zone entitles the company to use government assistance. A corporate income tax exemption is a form of government assistance. The permit is valid until September 1st 2016, provided that the company meets certain requirements. These requirements include incurring capital expenditure of at least EUR 78m by December 31st 2009, employing at least 120 people by January 1st 2010, and meeting the other requirements imposed by the laws pertaining to Special Economic Zones. As at the reporting date, the company met all the requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditure incurred up to EUR 50m, 50% of half of the amount of expenditure in excess of EUR 50m and up to EUR 100m, and 34% of half of the amount of expenditure in excess of EUR 100m.

In connection with the foregoing, the Group recognised government assistance assets and liabilities (current and non-current) as government assistance receivables and deferred income under government assistance. The Group reduces its government assistance receivables by the value of the government assistance used in the form of the corporate income tax exemption. In 2011 value of used government assistance amounted to PLN 3,893 thousand.

Deferred income under government assistance is released based on the average weighted depreciation rate applicable to the property, plant and equipment the acquisition of which served as the basis for determining the amount of government assistance.

The table below presents the structure of the deferred income under government assistance and the amounts released to other operating income in 2010 and 2011.

Type of government assistance	**Investment grant**	**Corporate income tax exemption**	**Total**
As at Jan 1 2010	19,143	4,688	23,831
Amortisation of government assistance	(1,166)	(1,596)	(2,762)
Revaluation of government assistance	0	5,970	5,970
As at Dec 31 2010	**17,977**	**9,062**	**27,039**
As at Jan 1 2011	17,977	9,062	27,039
Amortisation of government assistance	(825)	(363)	(1,188)
Revaluation of government assistance	0	16,509	16,509
As at Dec 31 2011	**17,152**	**25,208**	**42,360**
Non-current portion	16,326	24,158	40,484
Current portion	826	1,050	1,876
Total	**17,152**	**25,208**	**42,360**

As at December 31st 2011, the Group performed an analysis and revaluation of the amount of government assistance. Following the analysis, the Group revalued government assistance in the form of corporate income tax exemption. The value of government assistance assets increased by PLN 16,509 thousand, which resulted from a change in the estimated and unpaid corporate income tax for the period of the Group's operations in the Suwałki Special Economic Zone. The amount was estimated based on the updated budget projections approved by the Management Board. The Management Board adopted budget assumptions, which serve as a basis for the estimation of the government assistance amount based on historical results and expectations as to the market developments. Concurrently, the value of government assistance assets was reduced by PLN 3,893 thousand, i.e. unpaid corporate income tax for the Group's operations in the Suwałki Special Economic Zone in 2011. The amount of government assistance is not discounted.

(all amounts in PLN '000)

The table below presents the structure of the government assistance receivables.

	Dec 31 2011	Dec 31 2010
Corporate income tax exemption	27,165	14,549
Total	**27,165**	**14,549**
Non-current portion	27,165	14,549
Current portion	0	0
	27,165	**14,549**

17 Inventories

	Dec 31 2011	Dec 31 2010
Materials and merchandise	161,340	123,345
Semi-finished products and work in progress	466	319
Products	71,573	51,977
Prepaid deliveries	8,451	5,846
Total	**241,830**	**181,487**

Inventories are disclosed in the statement of financial position at net value, i.e. net of impairment losses of PLN 6,362.5 thousand (December 31st 2010: PLN 6,637 thousand).

18 Trade and other receivables

	Dec 31 2011	Dec 31 2010
Trade receivables	97,421	119,741
Trade receivables from related parties	7,364	6,816
Current prepayments and accrued income	3,405	7,149
Current VAT receivables	32,697	22,806
Other receivables	16,602	6,545
Total	**157,489**	**163,057**

As at December 31st 2011, trade receivables were reduced by impairment losses of PLN 10,950 thousand (December 31st 2010: PLN 9,839 thousand).

(all amounts in PLN '000)

Given the estimated contract completion date, the deposit is considered as a current deposit.

	Dec 31 2011	Dec 31 2010
Trade receivables	97,421	119,741
Trade receivables from related parties	7,364	6,816
Other receivables	2,982	1,524
Total	**107,767**	**128,081**

Factoring of receivables

The Group is a party to factoring agreements; such agreements are executed for at least one-year period. These agreements are regularly extended for successive periods. At present, the factoring agreements are valid until March 31st 2014. The agreements provide for recourse factoring services with respect to trade receivables which are covered by insurance policies with a PLN 200m limit. Collection of the receivables purchased by the factor is secured by an assignment of rights under the receivables insurance agreements.

Under the factoring agreements, the factor purchases the receivables at 90% or 100% of their nominal value, and the cost of financing the factoring service (WIBOR + margin) is covered by the Group. If the debtors fail to pay their liabilities, the factor has a claim towards the insurer under the insurance agreement with respect to 90% of the value of the receivables, and the remaining 10% of the receivables value is covered by the Group. As the Group continues to be exposed to a portion (10%) of the receivables sold to the factor under the factoring agreement, that portion of the receivables together with the related liabilities continue to be recognised in the Group's financial statements. The remainder of the receivables (90%) were derecognised from the Group's statement of financial position.

The table below presents the amounts of the trade receivables sold under the factoring agreement and the carrying values of the receivables and the related liabilities which continue to be recognised by the Company in the statement of financial position:

	Dec 31 2011	Dec 31 2010
Total trade receivables	224,108	220,711
Receivables derecognised from the statement of financial position	(126,687)	(100,970)
Net trade receivables	**97,421**	**119,741**

	31.12.2011	Dec 31 2010
Factoring receivables as at the reporting date	147,989	119,756
Payments made by customers, not submitted to the factor	7,167	7,567
Balance after payments, including:	140,822	112,189
Derecognised receivables (90%)	126,687	100,970
Receivables recognised in the statement of financial position up to the commitment amount (10%)	**14,135**	**11,219**

Settlement of factoring services	**31.12.2011**	**Dec 31 2010**
Factoring receivables as at the reporting date	125,733	119,756
Other settlements with the factor – cash in transit	(2,159)	(313)
Factoring of receivables	(107,185)	(100,970)
Factoring liabilities as at the reporting date	**16,389**	**18,473**

(all amounts in PLN '000)

19 Equity

	Dec 31 2011	Dec 31 2010
Par value of share capital	16,376	16,376
Number of ordinary shares	49,624,000	49,624,000
Par value per share (PLN)	0.33	0.33
Earnings/ (loss) per share attributable to owners of the parent	0.67	(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 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 of Pfleiderer Service GmbH, which holds 65.11% of the shares in Pfleiderer Grajewo S.A. In the period from January 1st to December 31st 2011, the number of the Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

Share capital

The share capital is made up of 49,624,000 ordinary shares with a par value of PLN 0.33 per share. As at December 31st 2011 all the shares were paid up. Shareholders have the right to dividend and are entitled to one vote per share at the General Meetings.

In the period from January 1st to December 31st 2011, there were no changes in the share capital.

In the period from the registration of the share capital in 1994 to December 1996 the Group operated in a hyperinflationary environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires that each component of equity (except retained earnings and revaluation surplus) be restated by applying a general price index from the period of hyperinflation. Such retroactive restatement would cause share capital and statutory reserve funds to increase by the total amount of PLN 28,863 thousand and retained earnings to decrease by the same amount.

Share premium

The share premium account is created from the excess of proceeds from issuance of shares above their par value. In 2011, there were no changes in share premium.

Statutory reserve funds

Statutory reserve funds are increased by distributions of net profit (i.e. at least 8% of net profit until statutory reserve funds reach one-third of the share capital).

In 2011, the portion of the 2010 profit allocated by the Group to statutory reserve funds was PLN 1,294 thousand.

Exchange differences on translating foreign operations

Exchange differences on translating foreign operations include all foreign exchange gains/(losses) arising on translation of the financial statements of foreign subsidiaries of Pfleiderer OOO and Pfleiderer MDF OOO.

Exchange differences on net investments in subsidiaries

Parent Pfleiderer Grajewo S.A. has receivables under loans advanced to its Russian subsidiaries Pfleiderer OOO and Pfleiderer MDF. The loans are treated as net investments in these entities; therefore, in accordance with IAS 21, foreign exchange gains/(losses) arising on translation of these receivables are presented as other comprehensive income (a separate item of equity) under exchange differences on net investments in subsidiaries.

(all amounts in PLN '000)

Dividends

Parent did not pay dividend for 2010.

20 Earnings/ (loss) per share

Earnings/ (loss) per share was calculated based on the earnings/ (loss) of equity holders of the parent attributable to ordinary shares and the weighted average number of ordinary shares outstanding during the twelve months' period.

The profit of the owners of the Parent attributable to ordinary shares for the financial year ended December 31st 2011 amounted to PLN 33,208 thousand, whereas loss attributable to ordinary shares for the financial year ended December 31st 2010 was PLN 15,183 thousand.

The weighted average number of ordinary shares outstanding in the discussed periods used to calculate basic and diluted loss per share was as follows:

	Jan 1 2011 Dec 31 2011	Jan 1 2010 Dec 31 2010
Number of ordinary shares as at January 1st	49,624,000	49,624,000
Number of ordinary shares as at December 31st	49,624,000	49,624,000
Weighted average number of shares as at December 31st	49,624,000	49,624,000

	Jan 1 2011 -Dec 31 2011	Jan 1 2010 -Dec 31 2010
Earnings/ loss per share	0.67	(0.31)
Diluted earnings/ loss per share	0.67	(0.31)

21 Borrowings and other debt instruments

	31.12.2011	31.12.2010
Non-current liabilities		
Overdraft facility repayable in over 12 months from the reporting date	5,714	18,227
Non-current portion of interest-bearing bank borrowings	687,266	820,063
Liabilities under borrowings from related entities	187,954	155,748
Total	**880,934**	**994,038**
Current liabilities		
Overdraft facility repayable in less than 12 months from the reporting date	9,579	720
Current portion of interest-bearing bank borrowings	128,181	62,150
Total	**137,760**	**62,870**

Bank borrowings

The Group has credit facilities available in the form of overdraft facility and short- and long-term portion of bank borrowings. As at December 31 2011, liabilities under bank borrowings amounted to PLN 830,740 thousand.

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

(all amounts in PLN '000)

Terms and repayment schedules of the bank borrowings as at December 31st 2011:

Lender	Borrower	Currency	Interest rate	Maturity date	Security	As at Dec 31 2011 Current portion	Non-current portion
Syndicate of 5 banks Tranche B	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR+margin	Mar 16 2012	mortgage, pledge	9,579	0
Syndicate of five banks Tranche A	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR+margin	Dec 30 2013	mortgage, pledge	37,737	452,030
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Oct 15 2012	mortgage, registered pledge, assignments	38,725	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	July 15th 2016	mortgage, registered pledge, assignments	0	188,302
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jun 30 2013	mortgage, registered pledge, assignments	0	35,713
EBRD loan	Pfleiderer OOO	EUR	6M EURIBOR + bank margin	Oct 11 2013	guarantee by Grajewo	12,418	16,935
EBRD equity	PFLEIDERER GRAJEWO S.A.	RUB	EURIBOR + margin	Jun 19 2012	Shares in Pfleiderer OOO	39,301	0
						137,760	**692,980**

(all amounts in PLN ‘000)

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

Lender	Borrower	Currency	Interest rate	Maturity date	Security	As at Dec 31 2010 Current portion	Non-current portion
Syndicate of 5 banks Tranche B	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR+margin	Mar 16 2012	mortgages, pledges	0	18,227
Syndicate of five banks Tranche A	PFLEIDERER GRAJEWO S.A.	PLN	WIBOR+margin	Dec 30 2013	mortgages, pledges	30,263	490,001
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Oct 15 2011	mortgage, registered pledge, assignments	12,000	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jul 15 2016	mortgage, registered pledge, assignments	0	227,127
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + bank margin	Jun 30 2013	mortgage, registered pledge, assignments	0	42,662
EBRD	Pfleiderer OOO	EUR	6M EURIBOR + margin	Oct 11 2013	surety, mortgage, registered pledge	19,887	25,910
EBRD	PFLEIDERER GRAJEWO S.A.	RUB	EURIBOR + margin	Jun 19 2012	shares in Pfleiderer OOO	0	34,363
Raiffeisen Bank Russia	Pfleiderer OOO	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:

- Tranche A in the amount of PLN 530,000,000, in the form of a non-revolving loan to be used to repay the outstanding debt owed by the Group to the Banks;
- Tranche B amounting to PLN 170,000,000, 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 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.

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

Repayment of the credit facility is secured by:

- 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, see Note 28.

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 May 31st 2012.

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

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

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

(all amounts in PLN '000)

Other credit facility agreements

Pfleiderer OOO of Russia, a subsidiary, was advanced an investment loan by the European Bank for Reconstruction and Development, repayable in instalments by October 11th 2013. The original loan amount was EUR 35m. The debt outstanding under the loan as at December 31st 2011 was EUR 7.7m (PLN 29,4m).

In 2011, Pfleiderer OOO financed its working capital with a bank borrowing in the form of an overdraft facility contracted with ZAO RaiffeisenBank, which was repaid in full in September 2011.

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 financial cost of the transaction, following from the difference between the purchase price and the selling price of the shares, will be equal to annual interest expense under the loan.

As at December 31st 2011, liabilities under borrowings contracted by subsidiary Pfleiderer MDF Sp. z o.o. stood at PLN 263m. Pfleiderer MDF Sp. z o.o. contracted an investment loan from PKO BP S.A., to be repaid in instalments by July 15th 2016. As at December 31st 2011, the debt under the loan was PLN 227.0m. Also, 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 December 31st 2011, the debt outstanding under this facility was PLN 35,713 thousand.

As at December 31st 2011, subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. had no debt outstanding under bank borrowings.

As at December 31st 2011, the debt outstanding under the bank borrowings taken out by the Group totalled PLN 831m.

Liabilities under borrowings from related entities

	Dec 31 2011	**Dec 31 2010**
Borrowings from related entities	187,954	155,748
	187,954	155,748

Borrowings from related entities comprise a loan of PLN 154,646 thousand advanced to the Group by Pfleiderer AG of Germany (a related entity) to finance construction of the new MDF plant in Russia. The loan is to be repaid by December 31st 2012. The borrowings also include a PLN 8,404 thousand loan advanced to the Group by Pfleiderer Service GmbH to finance the day-to-day operations of Pfleiderer MDF Sp. z.o.o., which is to be repaid by July 16th 2016; and a PLN 24,904 loan to finance the day-to-day operations of Pfleiderer Grajewo S.A. falling due on June 30th 2014.

(all amounts in PLN '000)

22 Employee benefits payable

	Dec 31 2011	Dec 31 2010
Salaries and wages	4,026	4,104
Personal income tax	1,451	1,275
Social security	3,607	3,742
Social Benefits Fund	2,038	1,646
Retirement severance pays	6,867	6,132
Length-of-service awards	62	62
Unused holidays	3,511	3,075
Employee bonuses	6,124	2,981
Other employee benefits	16	17
Total	**27,702**	**23,034**
Non-current portion	6,584	6,013
Current portion	21,118	17,021
Total	**27,702**	**23,034**

Retirement severance pay and length-of-service awards

In accordance with the Company's amended remuneration rules, as of December 31st 2009 employees of Pfleiderer Grajewo S.A. and Pfleiderer MDF Sp. z o.o. are not entitled to length-of-service awards. Until December 31st 2011, the employees of other Group companies remained entitled to such benefits. As of January 1st 2012, the Group no longer pays length-of-services awards.

The employees with the required length of service, i.e. 25 years for men and 20 years for women, are entitled to retirement severance pay upon reaching the retirement age of 65 years and 60 years, respectively. Employees with permanent work disability, entitled to disability benefits under the social security scheme, are entitled to disability severance pay. The basis for computations of the amount of retirement and disability severance pay is the employee's monthly pay.
The amount of the severance pay increases proportionately following ten years of service at the Company at the rate of 10% of the basis of computations for each year of service above ten years, and following 20 years of service at the Company – at the rate of 20% of the basis of computation for each year of service above 20 years.
Pursuant to z Art. 92^1.1 of the Labour Code, the retirement and disability severance pay cannot be lower than the employee's monthly pay.
Computations were based on employees' remuneration as at November 30th 2011.

Liabilities under retirement and disability severance pay and length-of-service awards were determined by a qualified actuary using the actuarial projected unit cost method. The following assumptions were used:

- Data on staff fluctuations was derived from the statistics of Pfleiderer Grajewo S.A. for 1997–2011, and with respect to Pfleiderer Prospan S.A. – for 1995–2010, Silekol Sp. z o.o. – for 2005–2011, Pfleiderer MDF Sp. z o.o. – for 2006–2011, and Jura Polska Sp. z o.o. – for 2004–2011, as well as from the statistics available to Certum, an actuarial firm. In accordance with the nature of staff movements, the level of staff mobility was assumed to fall as the employees' age increases.
- The mortality rate was based on the likelihood of death depending on age, based on the 2004 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the population of people employed at Pfleiderer Grajewo S.A. corresponds to the Polish average in terms of mortality and health condition.

- The likelihood of obtaining the status of a disabled person was based on the likelihood of retirement due to disability at the individual Group companies in the respective periods and the statistics available to Certum, an actuarial firm.
- The retirement age for men and women is 65 and 60 years, respectively.
- In accordance with the rules governing the award of length-of-service awards, persons terminating their employment with the Company lose their rights to any future length-of-service awards and severance pay.
- The date for calculating all entitlements was the beginning of each calendar year, with the assumption that the entitlements are evenly distributed throughout the year.
- The remuneration growth rate was assumed at 5% per annum.
- The discount rate on future benefits was assumed at 6%.

Employee bonuses

Employee bonuses comprise quarterly and annual bonuses paid to the Group's employees. They are recognised with respect to specific completed tasks in relation to which employees will receive payment in the future.

Pfleiderer AG Stock Option Scheme

Under the programme for share-based payments in the form of shares in parent Pfleiderer AG, the employees of the Pfleiderer Grajewo Group had the possibility to acquire options for shares in Pfleiderer AG directly from Pfleiderer AG. The options were measured using the Black-Scholes model, taking into account the three-year period until the options become vested and the unconditional right to receive payment is acquired (for details, see Note 29).

(all amounts in PLN ‘000)

23 Provisions

	Provisions	Total
As at Jan 1 2010	**2,552**	**2,552**
Release	1,912	**1,912**
As at Dec 31 2010	**640**	**640**
As at Jan 1 2011	**640**	**640**
Release	6	**6**
As at Dec 31 2011	**634**	**634**
Non-current portion	634	634
Current portion	0	0
	634	**634**

Provisions for settlements with employees

Provisions for settlements with employees were created to cover the cost of cancelling the loans granted to employees to finance purchases of shares, to the extent exceeding the carrying amount of receivables under loans advanced to employees for that purpose.

The provisions will be used as of 2034.

24 Trade and other payables

	Dec 31 2011	Dec 31 2010
Trade payables	194,502	190,709
Trade payables to related entities	11,927	17,200
Liabilities under factoring agreements	16,389	18,473
VAT liabilities	281	1,087
Liabilities under investment supplies	7,147	1,340
Deliveries prepaid by related entities	886	0
Prepaid deliveries	2,535	3,109
Other liabilities	33,255	10,994
Total	**266,922**	**242,912**

For details on liabilities under factoring agreements, see Note 18.

Other liabilities are related to accrued expenses and deferred income.

Trade and other payables include the following financial liabilities:

	Dec 31 2011	Dec 31 2010
Trade payables	194,502	190,709
Trade payables to related entities	11,927	17,200
Liabilities under factoring agreements	16,389	18,473
Liabilities under investment supplies	7,147	1,340

(all amounts in PLN '000)

Other liabilities	32,524	10,339
Total	**262,489**	**238,061**

25 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 with the use of receivables insurance and factoring services. The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position from the point of view of its cash flows. To manage 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.

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

Credit risk

In accordance with the Management Board's policy, credit risk exposure is monitored on an ongoing basis. All customers who require credit in excess of a certain amount are evaluated in terms of credit worthiness. The Group does not require any security on customer assets.

The Group insures its trade receivables. As at December 31st 2011, ca. 90% of total trade receivables from non-related parties were covered with trade credit insurance. The insurance secures credit risk – if a customer fails to pay, the insurer covers the loss.

The Group did not incur any significant losses resulting from failure to collect receivables from customers. Impairment losses are recognised on uninsured receivables, as well as the amounts corresponding to the Group's deductibles in relation to receivables insured, on the basis of a detailed analysis of the accounts receivable.

As at the reporting date, there was no significant concentration of credit risk. The carrying amount of each financial asset, including financial derivatives, represents the maximum credit risk exposure.

The total credit risk exposure was as follows:

	Dec 31 2011	Dec 31 2010
Loans advanced and receivables	107,767	128,081
Cash and cash equivalents	19,586	19,868
Other current financial assets	0	24
Other non-current financial assets	10	10
Currency forwards	0	589
Total	**127,353**	**148,572**

(all amounts in PLN '000)

As at December 31st 2011 and December 31st 2010, overdue trade receivables were as follows:

	Gross value	Impairment loss
	Dec 31 2011	
Not overdue	82,395	364
Overdue by:		
0-180 days	23,312	2,191
180-360 days	1,060	790
More than 360 days	8,968	7,605
	115,735	**10,950**

	Gross value	Impairment loss
	Dec 31 2010	
Not overdue	102,691	0
Overdue by:		
0-180 days	24,560	1,675
180-360 days	2,295	1,315
More than 360 days	6,850	6,849
	136,396	**9,839**

Changes in impairment losses on trade receivables in the twelve months ended December 31st 2011 and December 31st 2010 are presented below.

	Jan 1– Dec 31 2011	**Jan 1– Dec 31 2010**
Balance at beginning of the period	9,839	10,702
Change in impairment losses	1,111	(863)
Balance at end of the period	10,950	9,839

Interest rate risk

The Group carries cash at banks, receivables under loans granted, as well as liabilities under bank borrowings and other debt instruments. Interest rate risk is connected with interest payments under financial instruments bearing interest at floating rates. As at the reporting date, the Group did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

Analysis of the sensitivity of cash flows from variable-rate financial instruments

A 1% change in interest rates would lead to a change in net profit by the amounts set out below. The analysis presented below is based on the assumption that other variables, especially FX rates, remain unchanged.

	Jan 1 2011-Dec 31 2011		**Jan 1 2010-Dec 31 2010**	
	increase 1%	**decrease 1%**	**increase 1%**	**decrease 1%**
Variable-rate financial instruments	(12,250)	12,250	(10,853)	10,853
Difference in the amount of interest and effect on profit/loss before tax	(12,250)	12,250	(10,853)	10,853
Difference in the amount of interest and effect on net profit/loss	(9,923)	9,923	(8,791)	8,791
Effect on equity	0	0	0	0

Analysis of the sensitivity of fair value of fixed-rate financial instruments

The Group does not carry any significant fixed-rate financial assets or liabilities measured at fair value through profit or loss and does not use derivatives transactions as fair value hedges. Therefore, a change in interest rates would have no effect on the statement of comprehensive income through a change in the fair value of financial instruments.

Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of materials and goods for resale, and sale of finished products. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses mostly offset each other (natural hedging). The Group also makes investment expenditure denominated in foreign currencies, and therefore monitors its foreign currency positions on an on-going basis and hedges open positions through forward transactions. The Group monitors its foreign currency positions on an on-going basis and hedges open positions through forward transactions. Forward transactions included purchase of foreign currency at a predetermined rate. In 2011, the Group used forward contracts to hedge its currency risk related to business transactions (product exports). The forward contracts used to hedge the Company's business transactions provide for the sale of EUR at a pre-determined rate. This helps to secure the export sales margin and mitigate the risk related to a decline in export sales margins following from appreciation of the domestic currency.

The Group had no unsettled forward contracts as at December 31st 2011.

Forward contracts were measured at the end of each month. Changes in the fair value of hedging transactions are recognised in accordance with the hedge accounting policy.

Moreover, the Group is exposed to currency risk in connection with EUR-denominated bank borrowings and loans advanced by related entities.

(all amounts in PLN '000)

Exposure to currency risk under financial instruments, expressed in the zloty (translated using the exchange rate effective at the end of the reporting period):

As at Dec 31 2011:	EUR	USD	SEK	RUB
Trade receivables	15,830	49	0	0
Liabilities under borrowings and other debt instruments	(73,625)	0	0	0
Loans advanced	0	0	0	367,225
Trade payables	(35,947)	0	0	0
Borrowings received	(179,549)	0	0	0
Balance-sheet exposure, gross	**(273,291)**	**49**	**0**	**367,225**
Forward transactions	0	0	0	0
Net exposure under financial instruments	**(273,291)**	**49**	**0**	**367,225**

As at Dec 31 2010:	EUR	USD	SEK	RUB
Trade receivables	17,999	133	253	0
Loans advanced	0	0	0	339,588
Bank borrowings	(84,162)	0	0	0
Borrowings received	(130,364)	0	0	0
Trade payables	(71,221)	4	0	0
Balance-sheet exposure, gross	**(267,748)**	**137**	**253**	**339,588**
Forward transactions	(31,683)	0	0	0
Net exposure	**(299,431)**	**137**	**253**	**339,588**

(all amounts in PLN '000)

The value of euro exposure presented in the 2011 table relates only to the on-balance-sheet exposure. When analysing its total exposure, the Group also takes into account future sales and purchases in a given currency. The Group's policy with respect to the risk related to future cash flows involves hedging of approx. 50% of the currency exposure related to sales and purchases expressed in the euro.

The Group has treated receivables under loans granted in the Russian rouble by Pfleiderer Grajewo S.A. to Pfleiderer OOO and Pfleiderer MDF OOO, its subsidiaries, as net investments in subsidiaries. As at December 31st 2011, the total value of loans advanced to Pfleiderer OOO and Pfleiderer MDF OOO, amounting to PLN 367,225 thousand, was treated as net investment in subsidiaries (December 31st 2010: PLN 339,588 thousand). Currency-translation differences on those loans are charged directly to equity. For information on the settlement of the currency-translation differences, see Note 19 Equity.

Analysis of sensitivity to exchange rate changes

A 5% change in the value of a foreign currency in relation to the złoty would lead to changes of profit before tax, net profit, and equity as specified below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

As at Dec 31 2011:	**+5%**	**-5%**
EUR	(13,665)	13,665
USD	2	(2)
SEK	0	0
Effect on profit/loss before tax	(13,663)	13,663
Effect on net profit/loss	(11,067)	11,067
RUB		
Effect on equity - investments in subsidiaries (net)	18,361	(18,361)
Effect on total equity	7,294	(7,294)

As at Dec 31 2010:	**change +5%**	**change -5%**
EUR	(13,387)	13,387
USD	7	(7)
SEK	13	(13)
Effect on profit/loss before tax	(13,367)	13,367
Effect on net profit/loss	(10,827)	10,827
Effect on equity	(1,283)	1,283
RUB		
Effect on equity - investments in subsidiaries (net)	16,979	(16,979)
Total effect on equity	15,696	(15,696)

The sensitivity analysis was based on the following exchange rates of the zloty against foreign currencies.

Currency	**Exchange rate as at Dec 31 2011**	**Exchange rate as at Dec 31 2010**
EUR	4.4168	3.9603
USD	3.4174	2.9641
RUB	0.1061	0.0970
CHF	3.6333	3.1639
SEK	0.4950	0.4415

(all amounts in PLN '000)

Liquidity risk

The table below presents an analysis of the Group's financial liabilities by remaining maturity as from the reporting date. The amounts presented in the table are contractual, non-discounted cash flows.

As at Dec 31 2011	**Carrying value**	**Contractual cash flows**	**Below 6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Overdraft facilities	15,293	16,059	9,931	207	5921	0	0
Liabilities under borrowings and other debt instruments	1,003,401	1,157,515	115,545	77,347	758,941	205,682	0
Trade and other payables	262,489	262,489	262,489	0	0	0	0
	1,281,183	1,436,063	387,965	77,554	764,862	205,682	0

As at Dec 31 2010

	Carrying value	**Contractual cash flows**	**Below 6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Overdraft facilities	18,947	20,698	728	1,431	18,539	0	0
Borrowings and other debt instruments	1,037,961	1,235,036	62,799	58,826	298,803	754,090	60,518
Trade and other payables	238,061	238,061	238,061	0	0	0	0
	1,294,969	1,493,795	301,588	60,257	317,342	754,090	60,518

As at December 31st 2011, the Pfleiderer Grajewo Group had debt under bank borrowings in the amount of PLN 831 m and under other borrowings in the amount of PLN 188m; it also had an unused credit facility of PLN 161m. Most of these liabilities were long-term credit limits. In addition, the Group holds cash in the amount of PLN 20m.

Pursuant to the PLN 700,000 thousand credit facility agreement executed on March 16th 2010 with a bank syndicate ("the Credit Facility Agreement"), a breach by Pfleiderer AG, Pfleiderer Grajewo S.A.'s indirect parent, of its credit facility agreements would constitute a breach under the Credit Facility Agreement.

In connection with a series of events relating to legal and economic situation PAG, in 2010, there was a breach of Pfleiderer AG of its loan agreements. Pfleiderer Grajewo Group obtained waivers from its financing banks, whereby the banks waived their rights to terminate the credit facility agreement with the Group due to the breach of credit agreements by Pfleiderer AG.

On May 12th 2011, Pfleiderer AG reported that it had reached an agreement with its financing banks regarding key elements of the financial restructuring and debt refinancing plan. The terms of the agreement required an approval of the agreement by Pfleiderer AG's share- and stakeholders. Some non-controlling shareholders and holders of hybrid bonds have appealed against the resolutions granting the approvals to competent courts. As a result of negative verdict of Higher Regional Court, Frankfurt/Main from March 27th 2012 the debt relief and recapitalization of the company that had been planned within the scope of the restructuring plan is now no longer possible by this means. On 28 March 2012 Pfleiderer AG in Neumarkt filed an application for insolvency. According to the information provided by Pfleiderer AG, the Management Board of Pfleiderer AG filed a request to open insolvency proceedings and has requested to act as debtor in possession. The Management Board, supervised by a judicial administrator, will continue managing and restructuring the company.

According to the best knowledge of the Board of Pfleiderer Grajewo agreements concluded between the PAG and its banks were not uttered in connection with PAG application for insolvency. Moreover, according to the best knowledge of the Board of Pfleiderer Grajewo PAG application for insolvency is not a breach of Pfleiderer Grajewo credit agreement.

In the opinion of the Pfleiderer Grajewo Management Board, the potential declaration of Pfleiderer AG's bankruptcy will not adversely affect the Pfleiderer Grajewo Group's day-to-day operations. The Group companies are fully independent in terms of operations, have their own procurement systems and sales channels. The Pfleiderer Grajewo Group holds separate loan agreements securing funding of its day-to-day operations.

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

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities is similar to their carrying amounts as at December 31st 2011 and December 31st 2010.

Capital management

The Group defines equity as the carrying amount of the equity including non-controlling interests. The key ratio applied by the Group to monitor equity is the ratio of *equity to total assets*. At the end of 2011, the ratio increased from 26.78% to 29.26%.

The table below presents the value of equity and its proportion to total assets.

(all amounts in PLN '000)

	Dec 31 2011	Dec 31 2010
Equity	566,481	496,174
Total assets	1,935,970	1,852,471
Ratio		
Equity / *Total assets*	29.26%	26.78%

The Group manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. The Group did not pay dividend for 2011.

In addition, pursuant to the Commercial Companies Code, the parent is obliged to create statutory reserve funds by creating provisions in the amount of at least 8% of profit for a given financial year, until the amount of the statutory reserve funds reaches one-third of the Company's share capital.

26 Operating lease agreements

The Group entered into an operating lease agreement concerning laminating and impregnating equipment. Monthly lease payments are recognised using the straight-line method as profit or loss for current period.

The lease agreement currently in force expires on December 15th 2012.

The Group leases 16 company cars. The lease agreements expire in H2 2014 and at the beginning of 2015.

In 2011, the Group incurred costs under operating leases amounting to PLN 9,437 thousand (2010: PLN 9,035 thousand).

The operating lease payments outstanding as at the reporting date are presented in the table below:

	Dec 31 2011	Dec 31 2010
From 1 to 5 years	2,652	13,814
Up to one year	11,001	9,762
Total	**13,653**	**23,576**

27 Contractual obligations assumed to acquire property, plant and equipment

The capital expenditure incurred by the Group in 2011 amounted to PLN 39.7m, out of which 18.7m was related to the construction of the MDF plant in Russia. The remaining capital expenditure of PLN 21m was spent on small investment projects and completion of the projects commenced in 2010.

28 Contingent liabilities and security

As at December 31st 2011, Group's assets were encumbered with the following security interests:

- Mortgage over real estate and registered pledge over plant and equipment

A mortgage on real estate and a registered pledge on 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 a 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 December 31st 2011, the Group’s debt under the facility totalled PLN 227.0m.

- Mortgage on real estate located at ul. Wiórowa, Grajewo and 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 multi-purpose credit facility for the total amount of PLN 57,000 thousand granted to Pfleiderer MDF Sp. z o.o., a member of the Pfleiderer Grajewo Group, by PKO Bank Polski S.A. on August 29th 2007.

The 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 its claims under the PLN 57,000 thousand multi-purpose credit facility granted to Pfleiderer MDF Sp. z o.o. under 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 the investment loan agreement of January 15th 2007.

As at December 31st 2011, the Group’s debt under the facility advanced by PKO Bank Polski S.A. totalled PLN 35,7m.

- 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 documents granting security with respect to the debt arising under the credit facility agreement concluded on March 16th 2010 with Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., Fortis Bank Polska S.A. and Bank Gospodarki Żywnościowej S.A. (“the Banks”). These include in particular:

o 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;
o 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;
o establishing registered and financial pledges over amounts credited to bank accounts;
o assignment of rights under insurance agreements by way of security;
o assignment by way of security of the Company’s interest in co-ownership of plant and equipment intended to be used for the purposes of the MDF project in Russia;
o establishing 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.

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. Pfleiderer Prospan S.A. and Silekol Sp. z o.o. joined the following agreements executed between Pfleiderer Grajewo S.A. and the EBRD:

o guarantee agreement securing the EBRD’s claims under the credit facility extended to Pfleiderer OOO; and
o put/call option agreement concerning Pfleiderer OOO shares.

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

- 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.

In 2010, the following agreements were also concluded to secure the repayment of liabilities to the EBRD by Pfleiderer OOO, a subsidiary, under the credit 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 December 31st 2011, the Group had not issued any sureties.

(all amounts in PLN '000)

29 Material related-party transactions

Settlement of related-party transactions as at December 31st 2011:

Entity	Sales	Other operating expenses	Finance costs	Purchases	Liabilities under borrowings	Prepaid deliveries	Trade receivables	Trade payables
Pfleiderer Service GmbH	327	0	2,214	10,141	33,308	0	1,344	4,104
Pfleiderer Aktiengesellschaft	2	0	7,604	6,030	154,646	0	0	5,097
Pfleiderer Schweiz AG	0	0	0	0	0	886	0	35
Pfleiderer Holzwerkstoffe GmbH & Co. KG	0	0	0	554	0	0	0	548
Wodego GmbH	40,934	0	0	304	0	0	2,888	4
Thermopal GmbH	5,137	0	0	0	0	0	389	0
Pfleiderer Industrie GmbH	28,421	0	0	12,744	0	0	2,097	7
Jura Speditions GmbH	30	0	0	2,847	0	0	0	484
Duropal GmbH	84	0	0	5,268	0	0	19	0
BHT Bau + Holztechnik Thüringen GmbH	265	0	0	0	0	0	0	0
Kunz Faserplattenwerk Baruth GmbH	9,629	0	0	139	0	0	627	0
Pergo (Europe) AB	346	0	0	59	0	0	0	0
Pergo Inc.	19	0	0	0	0	0	0	0
Pfleiderer France S.A.S.	0	0	0	11	0	0	0	0
Pfleiderer B.V.	0	0	0	17	0	0	0	0
Pfleiderer Industrie Limited	0	0	0	24	0	0	0	1
Blitz	0	427	0	0	0	0	0	459
Pfleiderer Engineering International GmbH	0	0	0	673	0	0	0	1,188
Total	**85,194**	**427**	**9,818**	**38,811**	**187,954**	**886**	**7,364**	**11,927**

Pfleiderer Grajewo S.A. is a subsidiary of Pfleiderer Service GmbH, with Pfleiderer AG as the ultimate parent.

(all amounts in PLN ‘000)

Settlement of related-party transactions as at December 31st 2010:

Entity	Sales	Finance costs	Purchases	Trade receivables	Trade liabilities	Liabilities under borrowings	Prepayments for property, plant and equipment
Pfleiderer Service GmbH	5,204	3,174	10,776	1,752	4,386	46,228	0
Pfleiderer Aktiengesellschaft	5	7,499	4,909	0	4,487	109,520	74,443
Pfleiderer Holzwerkstoffe GmbH & Co. KG	0	0	195	0	0	0	0
Wodego GmbH	29,382	0	2,242	2,236	24	0	0
Thermopal GmbH	2,957	0	0	0	0	0	0
Pfleiderer Industrie GmbH	18,649	0	6,894	734	3,608	0	0
Jura Speditions GmbH	63	0	2,319	0	541	0	0
Pfleiderer Holzwerkstoffe Nidda GmbH & Co. KG	1,265	0	0	0	0	0	0
Duropal GmbH	240	0	11,537	36	4,099	0	0
BHT Bau + Holztechnik Thüringen GmbH	10,965	0	0	1,530	0	0	0
Kunz Faserplattenwerk Baruth GmbH	2,460	0	0	194	0	0	0
Pergo Inc.	64	0	0	64	0	0	0
Uniboard Inc.	270	0	0	270	0	0	0
Uniboard Canada Inc.	0	0	0	0	11	0	0
Pfleiderer Engineering International GmbH	0	0	540	0	44	0	0
Total	**71,524**	**10,673**	**39,412**	**6,816**	**17,200**	**155,748**	**74,443**

(all amounts in PLN '000)

Remuneration of members of the Management and Supervisory Boards

Remuneration of members of the Management Board of Pfleiderer Grajewo S.A., the Parent, paid and payable for the reporting period was as follows:

Name	Jan 1 –Dec 31 2011	Jan 1 – Dec 31 2010
Wojciech Gątkiewicz	735	501
Rafał Karcz	369	287
Dariusz Tomaszewski	456	337
Radosław Wierzbicki	460	354
Johann Bitzi	0	640
	2,020	**2,119**

In addition, members of the Parent's Management Board received the following remuneration for holding positions at Pfleiderer Prospan S.A.:

Name	Jan 1 2011 – 31.12.2011	Jan 1 2010 – 31.12.2010
Wojciech Gątkiewicz	735	566
Rafał Karcz	369	287
Dariusz Tomaszewski	456	337
Radosław Wierzbicki	453	312
	2,013	**1,502**

In addition, in 2011 Mr Rafał Karcz held the positions of President Mr Dariusz Tomaszewski and Radosław Wierzbicki held the positions of Member of the Management Board of Pfleiderer MDF Sp. z o.o., without receiving any remuneration on that account.

As at December 31st 2011, Mr Dariusz Tomaszewski, member of the Management Board of Pfleiderer Prospan S.A., had outstanding debt of PLN 26 thousand, resulting from a loan taken out in 1997 from the Privatisation Fund to finance the purchase of Prospan shares.

As at December 31st 2011, the other members of the Parent's Management Board had no outstanding debt under any loan agreements with the Group.

As at December 31st 2011, the number of Pfleiderer Grajewo shares held by the members of the Management and Supervisory Boards was as follows:

- Mr Wojciech Gątkiewicz, President of the Management Board – 5,400 shares
- Mr Rafał Karcz, Member of the Management Board – 3,472 shares
- Mr Dariusz Tomaszewski, Member of the Management Board – 4,108 shares
- Mr Radosław Wierzbicki, Member of the Management Board – 2,000 shares.

Under the stock option scheme operated by Pfleiderer AG, the parent of the Pfleiderer Group, members of the Pfleiderer Grajewo Management Board were entitled to acquire options for shares in the Pfleiderer Group's parent directly from Pfleiderer AG. The options were measured using the Black-Scholes model and assuming a three-year vesting period.

(all amounts in PLN '000)

The value of the options granted to the members of the Pfleiderer Grajewo Management Board in the 2011 financial year was as follows:

- Mr Rafał Karcz, Member of the Management Board – PLN 31.1 thousand
- Mr Dariusz Tomaszewski, Member of the Management Board – PLN 20.2 thousand
- Mr Radosław Wierzbicki, Member of the Management Board – PLN 15.6 thousand.

The managerial contract with Mr Rafał Karcz, member of the Management Board, contains a provision entitling Mr Karcz to a one-off severance pay equal to one month's remuneration if the contract is terminated by notice.

The managerial contract with Mr Rafał Karcz, member of the Management Board, contains a provision entitling Mr Karcz to a one-off severance pay equal to one month's remuneration if the contract is terminated by notice.

The managerial contract with Mr Wojciech Gątkiewicz, President of the Management Board, in effect as of January 1st 2012, provides for a six-month notice period.

Remuneration paid to the members of the Parent's Supervisory Board in the reporting period was as follows:

Name	**Jan 1 –Dec 31 2011**	**Jan 1 – Dec 31 2010**
Jan Woźniak	48	45
Total	**48**	**45**

The other members of the Parent's Supervisory Board did not receive remuneration.

As at December 31st 2011, the members of the Parent's Supervisory Board had no outstanding debt under any loan agreements with the Company.
As at December 31st 2011, Mr Jan Woźniak, Member of the Supervisory Board, held 10,000 shares in Pfleiderer Grajewo S.A. and Mr Paweł Wyrzykowski, former Chairman of the Supervisory Board, held 4,800 shares in the Company.

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

30 Supplementary information to the consolidated statement of cash flows

Structure of cash and cash equivalents

	31.12.2011	**31.12.2010**
Cash in hand and at banks	19,586	19,868
Cash disclosed in the consolidated statement of cash flows	**19,586**	**19,868**

Change in liabilities

	31.12.2011	**31.12.2010**
Change in trade and other payables	24,010	23,525
Increase/(decrease) in investment liabilities	5,807	343
Change in liabilities	**18,203**	**23,868**

31 Events subsequent to the end of the reporting period

On January 31st 2012, Pfleiderer Grajewo S.A. received a notification dated January 27th 2012 from Wojciech Gątkiewicz, President of the Management Board. In the notification, Mr Gątkiewicz, acting pursuant to Art. 160 of the Act on Trading in Financial Instruments of July 29th 2005, notified the Company that in 2011 he acquired Company shares with a total value of up to EUR 5,000. 2,400 ordinary bearer shares were acquired at prices ranging from PLN 8.10 to PLN 8.78 per share in ordinary session transactions concluded on the Warsaw Stock Exchange on August 29th and September 6th 2011.

On March 7th 2012, Mr Hans-Joachim Ziems tendered his resignation from the position of a member of the Pfleiderer Grajewo Supervisory Board, with effect as of April 10th 2012.

On March 15th 2012, an annex was signed to the Credit Facility Agreement of March 16th 2010 executed by Pfleiderer Grajewo S.A. as the lender, Pfleiderer Prospan S.A. and Silekol Sp. z o.o. as other obligors under the agreement and a syndicate of financing banks comprising: Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A., BRE Bank S.A., Bank Gospodarki Żywnościowej S.A. and BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.). Under the annex, the repayment date for Tranche B, previously scheduled for March 16th 2012, was extended. Consequently, the full amount of Tranche B (PLN 170m) falls due on March 16th 2013.

On 23 March 2012 Extraordinary General Meeting recalled Mr. Grzegorz Woelke from the position of Member of Supervisory Board of Jura Polska Sp. z o.o.

On 28 March 2012 Pfleiderer AG in Neumarkt filed an application for insolvency.
According to the information provided by Pfleiderer AG, the Management Board of Pfleiderer AG filed a request to open insolvency proceedings and has requested to act as debtor in possession. The Management Board, supervised by a judicial administrator, will continue managing and restructuring the company.
Pfleiderer AG is the parent of the Pfleiderer Group. It is a holding company, which does not conduct any operating activities. Pfleiderer AG employs 10 staff. The bankruptcy petition was filed exclusively with respect to Pfleiderer AG and does not involve the Pfleiderer AG Group's subsidiaries which continue their day-to-day operations unaffected.

The Pfleiderer Grajewo Group companies have not issued any sureties for Pfleiderer AG's liabilities.
The Company's direct shareholder is Pfleiderer Service GmbH in Neumarkt, however, the bankruptcy petition does not cover Pfleiderer Service GmbH.
Pfleiderer AG is not a direct shareholder in any of the Pfleiderer Grajewo Group companies.
In the opinion of the Pfleiderer Grajewo Management Board, the potential declaration of Pfleiderer AG's bankruptcy will not adversely affect the Pfleiderer Grajewo Group's day-to-day operations. The Group companies are fully independent in terms of operations, have their own procurement systems and sales channels. The Pfleiderer Grajewo Group holds separate loan agreements securing funding of its day-to-day operations.

On April 2nd 2012 Pfleiderer Grajewo S.A. and its subsidiary undertaking Pfleiderer Prospan S.A. received a notification of initiation of anti-trust proceedings by the President of the Office of Competition and Consumer Protection ("UOKiK") dated March 30th 2012 on the conclusion by Kronospan Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Kronopol Sp. z o.o., Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A. an agreement restricting competition on the domestic chipboard and fibreboard market.
The information obtained indicates that the case files are just currently created from the material gathered during the investigation. Pfleiderer Grajewo SA and a subsidiary of Pfleiderer S.A. are currently waiting for an opportunity to review case files. Units were given 14 days' notice for explanations. At this stage, the Board of Pfleiderer Grajewo and Pfleiderer basis of the available information is not able to quantify the risk.

At the Extraordinary General Meeting held on April 10th 2012 Mr Jochen Schapka was appointed as Member of the Supervisory Board.

Extraordinary General Meeting held on April 10th 2012 adopted resolution on a consent for extension of a duration of the debt bearing securities issue programme in a form of bonds by June 30th, 2017.

32 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. Below are discussed those estimates and assumptions that are connected with a significant risk of having to make major adjustments to the carrying amounts of assets and liabilities in the course of the following financial year.

The Group performs reviews on a regular basis and recognises impairment losses on individual asset items in the statement of comprehensive income. In particular, impairment losses are made on trade receivables, inventories of materials, and finished goods. In addition, it reviews tangible assets, including a review of their useful economic lives and circumstances affecting the recoverable amount. The amount of provisions for future liabilities under retirement, sick-pension and length-of-service entitlements is determined with an actuarial method on the basis of adopted assumptions.

In particular, significant areas of uncertainty with respect to the estimates as well as the judgments made during the application of accounting policies which had the most significant effect on the figures disclosed in the financial statements are presented in the following Notes:

- Notes to the annual consolidated financial statements, Chapter 6, Section d (v) – useful economic life of property, plant and equipment,
- Note 3 – Goodwill, recoverable value of goodwill,
- Nota 9 – Corporate income tax,
- Note 10 – Recoverable value of non-financial non-current assets,
- Note 22 – Measurement of liabilities under defined employee benefits,
- Note 22 and 29 – Measurement of share-based payments
- Note 23 and 28 – Provisions and contingent liabilities,
- Note 25 – Valuation of financial instruments,
- Note 26 – Classification of lease agreements.

Wojciech Gątkiewicz
President

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 the accounting records

Grajewo, April 16th 2012