

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Quarterly Report Qsr 1 / 2014

quarter / year

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

for issuers conducting manufacturing, construction, trade or services business

for the 1st quarter of the financial year 2014, covering the period from January 1st to March 31st 2014,

including condensed consolidated financial statements prepared in accordance with the IFRS

currency: PLN

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

currency: PLN

Date of filing: May 15th 2014

Pfleiderer Grajewo Spółka Akcyjna

(full name)

GRAJEWO

(abbreviated name)

19-203

(postal code)

Wiórowa

(street)

0-86 272 96 00

(telephone number)

grajewo@pfleiderer.pl

(e-mail)

719-10-00-479

(NIP – Tax Identification Number)

wood products

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

Grajewo

(registered office)

1

(number)

0-86 272 39 83

(fax number)

www.pfleiderer.pl

(web site)

4500933817(REGON – Industry Registration Number)

FINANCIAL HIGHLIGHTS	PLN '000		EUR '000	
	1 quarter cumulative / 2014 Jan 1-Mar 31 2014	1 quarter cumulative / 2013 Jan 1-Mar 31 2013	1 quarter cumulative / 2014 Jan 1-Mar 31 2014	1 quarter cumulative / 2013 Jan 1-Mar 31 2013
	Condensed consolidated financial statements data			
I. Sales revenue	396 822	354 463	94 720	84 926
II. Operating profit/(loss)	30 076	14 694	7 179	3 521
III. Profit/(loss) before tax	25 724	7 486	6 140	1 794
IV. Net profit	20 320	106 619	4 850	25 545
V. Net profit attributable to equity holders of the parent	20 320	104 261	4 850	24 980
VI. Net cash provided by (used in) operating activities	31 506	-91 514	7 520	-21 926
VII. Net cash provided by (used in) investing activities	-59 779	667 753	-14 269	159 987
VIII. Net cash provided by (used in) financing activities	32 174	-459 865	7 680	-110 179
IX. Total net cash flow	3 901	116 374	931	27 882
X. Total assets	1 101 451	1 118 793	264 055	269 771
XI. Liabilities	428 474	466 518	102 720	112 490
XII. Non-current liabilities	130 319	134 647	31 242	32 467
XIII. Current liabilities	298 155	331 871	71 478	80 023
XIV. Equity	672 977	652 275	161 335	157 281
XV. Share capital	16 376	16 376	3 926	3 949
XVI. Weighted average number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVII. Weighted average diluted number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVIII. Earnings per ordinary share (PLN/EUR)	0,41	2,10	0,10	0,50
XIX. Diluted earnings per ordinary share (PLN/EUR)	0,41	2,10	0,10	0,50
XX. Book value per share (PLN/EUR)	13,56	13,14	3,25	3,15
XXI. Diluted book value per share (PLN/EUR)	13,56	13,14	3,25	3,15
XXII. Declared or paid dividend per share (PLN/EUR)	0,00	0,00	0,00	0,00
Condensed financial statements data				
XXIII. Sales revenue	171 281	161 284	40 884	38 642
XXIV. Operating profit/(loss)	7 120	5 243	1 700	1 256
XXV. Profit/(loss) before tax	3 821	352	912	84
XXVI. Net profit/(loss)	3 092	56 180	738	13 460
XXVII. Net cash provided by (used in) operating activities	12 462	-62 421	2 975	-14 955
XXVIII. Net cash provided by (used in) investing activities	-34 625	666 117	-8 265	159 595
XXIX. Net cash provided by (used in) financing activities	26 653	-525 668	6 362	-125 945
XXX. Total net cash flow	4 490	78 028	1 072	18 695
XXXI. Total assets	1 075 510	1 080 579	257 836	260 556
XXXII. Liabilities	448 933	457 550	107 624	110 327
XXXIII. Non-current liabilities	7 268	6 520	1 742	1 572
XXXIV. Current liabilities	441 665	451 030	105 882	108 755
XXXV. Equity	626 577	623 029	150 211	150 229
XXXVI. Share capital	16 376	16 376	3 926	3 949
XXXVII. Weighted average number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XXXVIII. Weighted average diluted number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XXIX. Earnings per ordinary share (PLN/EUR)	0,06	1,13	0,01	0,27
XL. Diluted earnings per ordinary share (PLN/EUR)	0,06	1,13	0,01	0,27
XLI. Book value per share (PLN/EUR)	12,63	12,55	3,03	3,01
XLII. Diluted book value per share (PLN/EUR)	12,63	12,55	3,03	3,01
XLIII. Declared or paid dividend per share (PLN/EUR)	0,00	0,00	0,00	0,00

data in lines : X-XV, XXXI-XXXVI are presented accordingly:
column.1 - for 31.03.2014
column.2 - for 31.12.2013
column.3 - for 31.03.2014
column.4 - for 31.12.2013

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Consolidated Quarterly Report QSr 1 / 2014

Pursuant to 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 (uniform text Dz. U. of 2014, item 133),

the Management Board of the Parent, Pfleiderer Grajewo S.A. of Grajewo,

hereby releases the quarterly report for Q1 2014.

PRESIDENT'S INTRODUCTION TO THE Q1 2014 CONSOLIDATED QUARTERLY REPORT

The first quarter of 2014 was a period of success for the Pfleiderer Grajewo Group.

In the first quarter, a double-digit year-on-year growth was reported in furniture sales by value, chiefly fuelled by strong demand from the furniture industry, buoyed by continued robust furniture exports. A rise was also recorded in domestic demand.

Revenue from continuing operations advanced 12% compared with the same period last year, on the back of higher sales volumes, achieved at similar price levels, and product mix changes. There was a marked improvement in the return on sales, greatly assisted by a product mix change and stable raw material and energy prices.

The bottom-line performance also saw significant improvement. Net profit attributable to owners of the parent came in at PLN 20m, up more than PLN 18m year on year (compared with PLN 2m), with a stronger operating profit and reduced debt servicing cost as the key growth factors.

Furthermore, the Group has put in motion a comprehensive performance improvement programme, which is expected to deliver an increased turnover and improved cost efficiencies, ultimately contributing to a higher return on sales. The net effect of the programme is expected to exceed PLN 30m this year, with over PLN 10m in the first quarter alone.

The price of the Company's primary raw materials - in particular timber – remained stable year on year. The stable prices, together with decisive steps taken to increase revenue and tighten cost discipline, further improved return on sales compared with the first quarter of 2013.

In the first quarter of 2014, the average capacity utilisation of the Group's key process lines was above 97%. The Management Board has made the decision to increase capacity utilisation by 10% in 2014-2015, which is to be achieved by removing technology bottlenecks.

The Group is pursuing an investment programme to upgrade its plants, better align its production capacities with market needs and achieve cost efficiencies. Investment projects with a value of PLN 50m are currently underway, with the total capex budget for this year to exceed PLN 100m.

In addition, January 2014 saw the closing of the purchase of a non-controlling interest in Pfleiderer MDF. Finally Pfleiderer Grajewo S.A. holds 100% of the shares in all its subsidiaries.

Yours faithfully,
Wojciech Gątkiewicz
President of the Management Board

II. GENERAL INFORMATION

1. General overview of Pfleiderer Grajewo S.A. (the Parent)

Pfleiderer Grajewo S.A., the Parent of the Pfleiderer Grajewo Group, is a listed 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 Section B of the Commercial Register 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.

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

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

In accordance with the Polish Classification of Business Activities, the Parent's business is registered under No. 1621Z.

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

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

- | | |
|------------------------|-----------------------------------|
| 1. Wojciech Gątkiewicz | President of the Management Board |
| 2. Rafał Karcz | Member |
| 3. Dariusz Tomaszewski | Member |

Composition of the Supervisory Board as at March 31st 2014:

- | | |
|-----------------------|-----------------------------------|
| 1. Michael Wolff | Chairman of the Supervisory Board |
| 2. Gerd Hammerschmidt | Member |
| 3. Jochen Schapka | Member |
| 4. Richard Mayer | Member |
| 5. Jan Woźniak | Member |

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

The following companies are fully consolidated: Pfleiderer Grajewo S.A. (the Parent), Pfleiderer Prospan S.A., Silekol Sp. z o.o., Pfleiderer MDF Sp. z o.o., Jura Polska Sp. z o.o., Unifloor Sp. z o.o., and Grajewo OOO (subsidiaries). Financial information for the comparative period of Q1 2013 comprises data from separate financial statements of Pfleiderer Grajewo S.A., prepared in accordance with the IFRS, and separate financial statements of Pfleiderer Prospan S.A., Silekol Sp. z o.o., Pfleiderer MDF Sp. z o.o., Jura Polska Sp. z o.o., and Unifloor Sp. z o.o.

III. CHANGES IN ACCOUNTING POLICIES

1. Significant accounting policies

(a) **Statement of compliance**

The Group's financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* endorsed by the European Union.

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 are applicable for annual periods beginning on or after January 1st 2014.

The financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of these financial statements, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

The Group's financial statements for Q1 2014 and comparative data were prepared in accordance with the accounting policies applied to prepare the most recent annual financial statements of the Group and give a true, fair and clear view of the Group's assets and performance.

(b) **Basis of preparation**

The companies comprising the Group, namely Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o., maintain their accounting records in compliance with the IFRS. Subsidiary Grajewo OOO applies Russian accounting standards, which for the consolidation purposes have been adapted to reflect IFRS. Subsidiaries Jura Polska Sp. z o.o. and Unifloor Sp. z o.o. keep their accounting records in accordance with the policies and practices generally applied by Polish companies. The policies and practices have also been adapted for the consolidation purposes to reflect IFRS. These consolidated financial statements, prepared on the basis of accounting records of Group companies, contain adjustments made to present the consolidated financial position, results and cash flows of the Group in accordance with the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board and the Standing Interpretations Committee.

These consolidated financial statements of the Group and the separate financial statements of the Parent prepared as at March 31st 2014 have not been audited.

The Parent's separate financial statements as at March 31st 2014 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* endorsed by the European Union.

(c) **Changes in accounting policies**

Since mid-2013, the Group changed the classification of foreign exchange gains and losses. Foreign exchange gains and losses related to operating activities were reclassified from financing activities to other income or expenses, as appropriate. Following reclassification of comparative data for the Q1 2013 other income rose by PLN 311 thousand. Accordingly, finance income decreased by the same amount.

IV. FINANCIAL HIGHLIGHTS
1. Group's consolidated performance and changes in revenue

The following table presents a comparison of the statements of comprehensive income for Q1 2014 and Q1 2013.

Statement of comprehensive income for the reporting period	Q1 2014 Jan 1–Mar 31 2014		Q1 2013 Jan 1–Mar 31 2013	
	(PLN '000)	%	(PLN '000)	%
	/A/	/B/	/C/	/D/
Revenue	396,822	100.0%	354,463	100.0%
Cost of sales	(324,441)	(81.8%)	(297,869)	(84.0%)
Gross profit	72,381	18.2%	56,594	16.0%
Other income *)	3,121	0.8%	9,394	2.7%
Distribution costs	(29,536)	(7.4%)	(24,594)	(6.9%)
Administrative expenses	(14,042)	(3.5%)	(18,642)	(5.3%)
Other expenses	(1,848)	(0.5%)	(8,058)	(2.3%)
Operating profit	30,076	7.6%	14,694	4.1%
Finance income *)	285	0.1%	8,376	2.4%
Finance costs	(4,637)	(1.2%)	(15,584)	(4.4%)
<i>Net finance income / (costs)</i>	<i>(4,352)</i>	<i>(1.1%)</i>	<i>(7,208)</i>	<i>(2.0%)</i>
Profit before tax	25,724	6.5%	7,486	2.1%
Income tax expense	(5,404)	(1.4%)	(3,055)	(0.9%)
Net profit on continuing operations	20,320	5.1%	4,431	1.3%
Net profit on continuing operations attributable to majority shareholders	20,320	5.1%	2,073	0.6%
Net profit on discontinued operations	0	0.0%	102,188	28.8%
Net profit for the reporting period	20,320	5.1%	106,619	30.1%
Net profit attributable to non-controlling interests	0	0.0%	2,358	0.7%
Net profit attributable to majority shareholders	20,320	5.1%	104,261	29.4%
EBITDA	42,086	10.6%	25,214	7.1%

*) change of the presentation of operating exchange differences, detailed information see III.1.c

Discussion of the statement of comprehensive income.

In Q1 2014, revenue from continuing operations rose by 12% year on year on the back of product mix changes. Sales of raw and melamine-faced chipboard were up by 17% and 16%, whereas sales of raw and melamine-faced MDF boards increased by 25% and 10%, with prices at relatively stable levels. The increase in revenues was the result of strong demand from the furniture industry mainly stimulated by continuing high furniture export. An increase in domestic demand is also observed.

Gross profit improved by over 2 pp on Q1 2013 and exceeded PLN 72m (18%). The higher gross margin is attributable to consistent sales improvement efforts and cost discipline. The prices of main raw materials remained stable quarter on quarter, which in combination with the change of the production mix lowered production costs, while the sales volume remained unchanged. Operating profit was up PLN 15.4m on Q1 2013, driven mainly by revenue, which grew faster than costs of sales.

Net finance costs declined by nearly PLN 2.9m in the analysed period, mainly as a result of a substantial debt reduction.

In Q1 2014, the Group's net profit from continuing operations was over PLN 20m, up by 15.9m year on year. This positive result is attributable to higher operating revenue and lower net finance costs in the period.

2. Net cash position

As at March 31st 2014, the Group's net debt under bank borrowings (debt less cash) was PLN 170,507 thousand, having increased by PLN 32,426 thousand in Q1 2014.

3. Equity

As at the end of Q1 2014, the Group's equity was PLN 672,977 thousand, having increased over the last quarter chiefly by PLN 20.702 thousand on the back of a net profit.

4. Sale of shares or assets

In Q1 2014, the Pfleiderer Grajewo Group reported a gain of PLN 157.7 thousand on sale of non-current assets.

5. Factors and events which may affect the Group's future performance

The Management Board sees good prospects for improvement of the Group's year-on-year operating and net performance in the coming quarters due to lower finance costs. The Group will focus on development of new products and market segments, adaptation of the product mix to market expectations, cost reduction and improvement of product quality.

V. GROUP SALES

1. Domestic and export sales

Sales improved by 12% year on year in Q1 2014.

Below is presented a geographical breakdown of the Group's sales (PLN '000).

COUNTRY	<u>Jan 1–Mar 31 2014</u>	<u>Jan 1–Mar 31 2013</u>
Poland	266,682	221,637
Germany	45,696	45,272
Lithuania	16,221	20,829
Russia	17,858	21,913
Sweden	11,998	9,798
Czech Republic	7,194	7,292
Belarus	3,449	4,768
Latvia	3,819	3,125
Ukraine	2,274	2,773
Slovakia	3,229	2,527
Netherlands	3,047	2,604
Romania	2,630	1,905
Kazakhstan	1,577	1,719
Denmark	1,981	1,763
Hungary	1,489	626
Finland	1,480	1,184
Other countries < PLN 1m	6,198	4,728
Total	<u>396,822</u>	<u>354,463</u>

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

- direct sales to the furniture industry,
- sales to the Pfleiderer Partner dealership network (PP network),
- export sales.

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

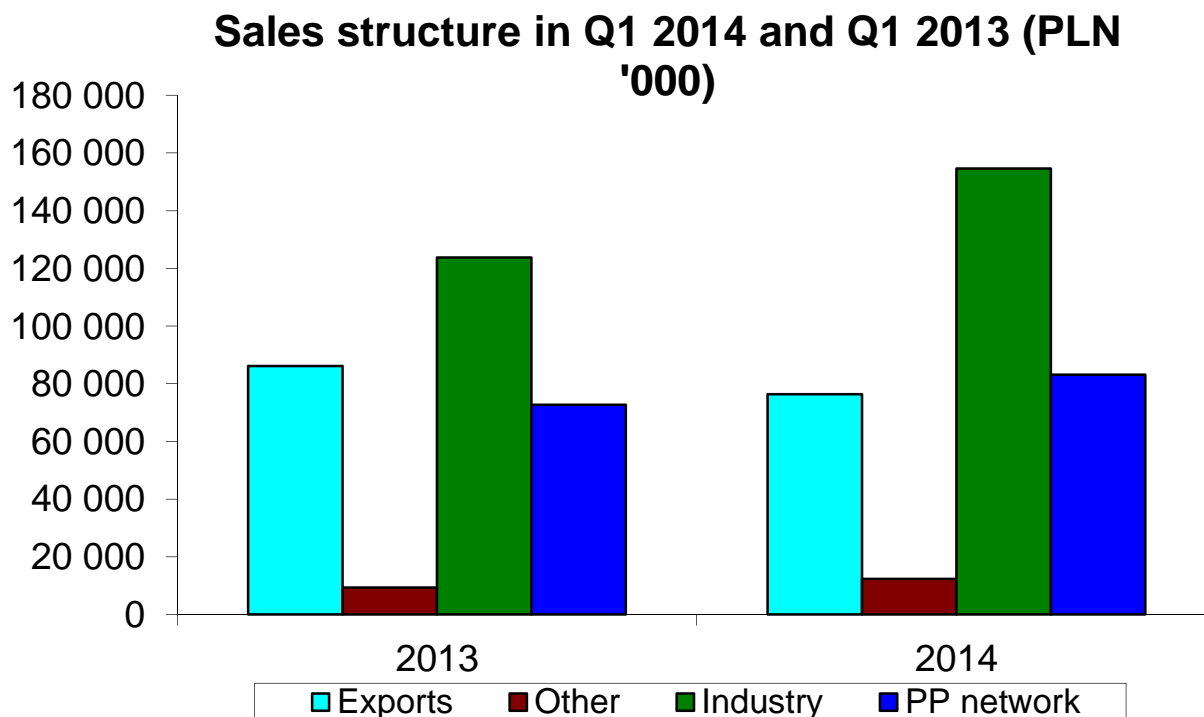


Figure: Sales structure in Q1 2014 and Q1 2013 (PLN '000)

In the Polish market, direct sales to large and medium-sized furniture manufacturers and the Pfleiderer Partner network continued to represent the most important distribution channels. Relative to Q1 2013, in Q1 2014 sales through domestic distribution channels increased as a result of stronger demand from the furniture industry and higher sales of MFP boards. Sales to large furniture manufacturers were up by 25%, to the Pfleiderer Partner network – by 14%, and to other domestic distribution channels – by 33%. Over the same period, exports declined by 11%, chiefly because of lower sales to Russia.

2. Seasonality of operations

Chipboard sales are subject to seasonal changes driven by cycles in the furniture and construction markets. Typically, sales fall in the second quarter and peak in the second half of the calendar year.

VI. Q1 2014 RESULTS**1. Composition of the Pfleiderer Grajewo Group****a. Structure of the Pfleiderer Grajewo Group**

In the period January 1st – March 31st 2014, Pfleiderer Grajewo S.A. was the parent of the following entities:

Subsidiaries

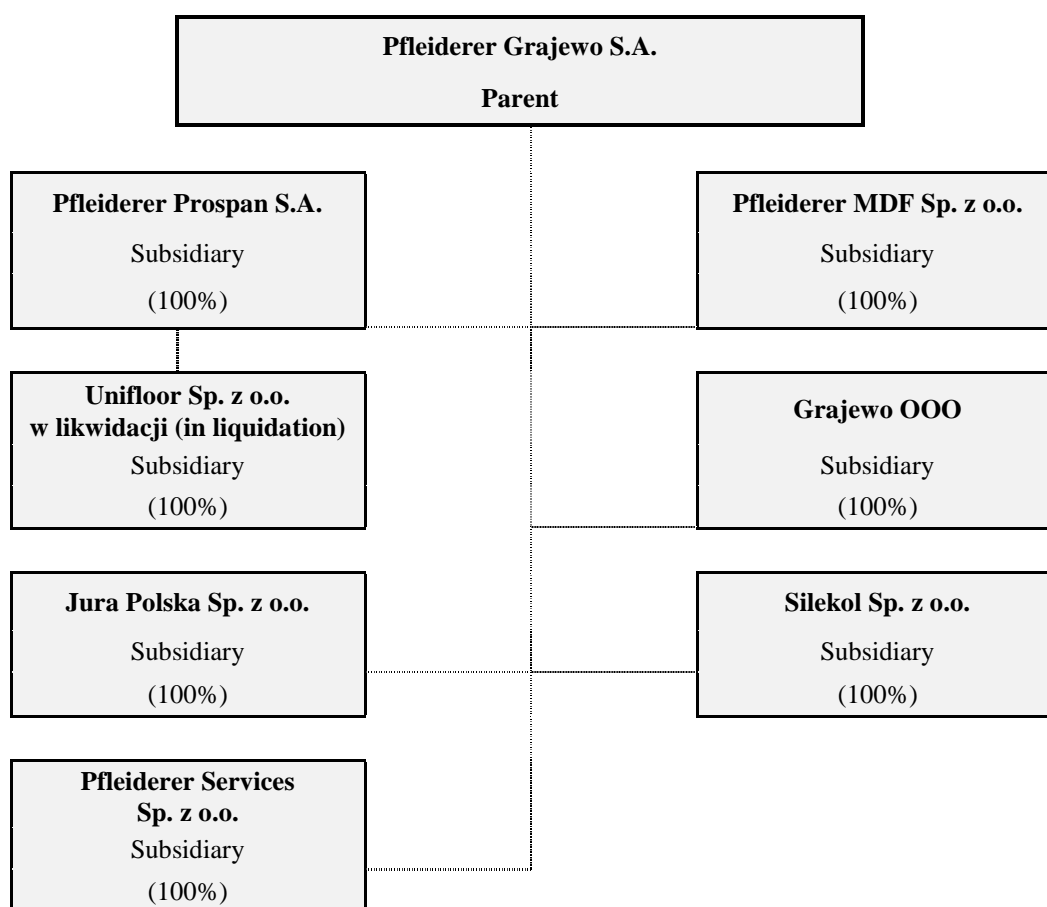
- 1 Pfleiderer Prospan S.A., Wieruszów
- 2 Silekol Sp. z o.o., Kędzierzyn-Koźle
- 3 Pfleiderer MDF Sp. z o.o., Grajewo
- 4 Jura Polska Sp. z o.o., Grajewo
- 5 Unifloor Sp. z o.o. w likwidacji (in liquidation)
- 6 Grajewo OOO, Novgorod
- 7 Pfleiderer Services Sp. z o.o., Grajewo

Jointly-controlled entities

- 10 Blitz 11-446 GmbH, Neumarkt

(5) Indirectly through Pfleiderer Prospan S.A.

As at March 31st 2014, the structure of the Group was as follows:



These interim consolidated financial statements of the Pfleiderer Grajewo Group comprise the financial data of Pfleiderer Grajewo S.A., the Parent, and its subsidiaries.

b. Changes in the Group's structure in the reporting period

On January 20th 2014, Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Service GmbH of Neumarkt, Germany, as the seller, signed an agreement for the purchase of shares in subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo. The purchase agreement was signed in performance of the preliminary purchase agreement of December 27th 2013, following fulfilment of a condition provided for in the preliminary agreement (court registration of share capital increase at Pfleiderer MDF Sp. z o.o.). The purchase agreement concerned 135,328 non-preference shares with a par value of PLN 500 per share. The purchase price for the shares amounted to EUR 6,988 thousand (an equivalent of PLN 29,070 thousand).

c. Group's business profile

The Pfleiderer Grajewo Group, with many years of experience on the market of wood-based products used in construction, furniture manufacture and interior design, is an arm of the international Pfleiderer Group and its Business Centre for Eastern Europe. The Group boasts a strong position on the markets of Central and Eastern Europe and grows dynamically by entering new markets, reaching new segments and enhancing its product mix.

The mission of the Pfleiderer Grajewo Group is to establish long-term relations with both direct customers and end users of its products. The Group strives to win and maintain complete customer confidence and develop a fully professional approach at all levels of its relationship with customers.

The Group operates manufacturing plants with various production profiles.

Pfleiderer Grajewo Group companies and their business profiles:**Business scope of Pfleiderer Grajewo S.A., the Parent:**

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

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. Bolesławecka 10, 98-400 Wieruszów, Poland

Business profile:

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

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

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

Business profile:

The company ensures steady supplies of adhesives used in chipboard manufacture to the Parent and its subsidiaries.

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

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

Business profile:

- 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. – 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

Business profile:

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

Unifloor Sp. z o.o. w likwidacji (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. Bolesławecka 10, 98-400 Wieruszów, Poland

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

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

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

The company has suspended its operations.

Grajewo OOO – a limited liability company incorporated under the laws of the Russian Federation, registered on August 12th 2009 by Interregional Inspection No. 9 for the Novgorod Region at the Ministry of Customs and Taxes of the Russian Federation.

Uniform Registration Number: 1095321004130
Tax Identification Number (NIP): 5321135070
Registered office: 21/43 Studenitzeskaya Street, Veliky Novgorod, Russia

The company conducts trading activities in Russia.

2. Consolidated financial performance
Consolidated statement of financial position as at March 31st 2014 (PLN '000)

	Total Mar 31 2014	Total Dec 31 2013	Total Mar 31 2013
Current assets			
Property, plant and equipment	620,700	623,837	576,722
Intangible assets	1,656	1,607	2,090
Goodwill	107,829	107,829	107,829
Investments in related entities	52	52	118
Other non-current financial assets	3,845	18,738	215
Investment property	3,995	3,995	4,300
Deferred tax asset	15,429	14,652	35,315
Prepayments for property, plant and equipment	11,156	5,578	7,353
Government grants receivable	12,573	14,627	15,520
Non-current assets	777,235	790,915	749,462
Inventories	146,048	177,692	171,285
Income tax receivable	20,846	21,110	514
Trade and other receivables	135,327	112,310	124,879
FX forwards	609	100	213
Cash and cash equivalents	20,351	16,450	133,892
Other current financial assets	1,035	216	22,966
Current assets	324,216	327,878	453,749
Total assets	1,101,451	1,118,793	1,203,211
Equity			
Share capital	16,376	16,376	16,376
Share premium	289,806	289,806	289,806
Statutory reserve funds	207,809	207,809	195,806
Revaluation reserve	619	619	619
Cash flow hedges	456	0	213
Exchange differences on translating foreign operations	(158)	(84)	0
Retained earnings	158,069	137,749	147,167
Equity (attributable to owners of the parent)	672,977	652,275	649,987
Non-controlling interests	0	0	61,659
Total equity	672,977	652,275	711,646
Liabilities			
Borrowings and other debt instruments	81,376	86,801	169,053
Employee benefit obligations	8,020	8,020	7,111
Provisions	786	786	739
Deferred tax liabilities	11,004	9700	8,017
Deferred income from government grants	29,133	29,340	27,027
Non-current liabilities	130,319	134,647	211,947
Borrowings and other debt instruments	109,482	67,730	97,895
Income tax payable	1,113	500	293
Trade and other payables	166,399	240,260	155,340
Employee benefit obligations	19,812	22,032	24,942
Deferred income from government grants	1,349	1,349	1,148
Current liabilities	298,155	331,871	279,618
Total liabilities	428,474	466,518	491,565
Total equity and liabilities	1,101,451	1,118,793	1,203,211

Off-balance-sheet items

For information on issued guarantees and off-balance-sheet liabilities, see Section VIII.8 and VIII.9 of the Notes to these financial statements.

Discussion of changes in key items of the statement of financial position.

The change in non-current assets is primarily a result of investments made in Q1 2014, offset by amortisation and depreciation charges.

The change in other non-current financial assets as at the end of Q1 2014 follows from the reclassification of receivables blocked in bank accounts under agreements on sale of shares in the Russian companies, to other current receivables, given their approaching release date.

The amount of government grants receivable changed following the revaluation of their total estimated value, calculated based on amounts budgeted for the coming years.

As at the end of Q1 2014, inventories stood at PLN 146m and decreased, as expected, from the level reported at the end of 2013 following sale in Q1 2014 of finished products from the stock accumulated in winter (due to seasonality of the Group's operations).

As at March 31st 2014, trade and other receivables were higher than as at the end of 2013. The change was driven by an increase in trade receivables, which rose on the back of higher turnover and revenue attributable to seasonality of the Group's business. Furthermore, the Group's receivables blocked in bank accounts in connection with the sale of shares in the Russian companies have been reclassified to current receivables, in line with their current character.

The Group's equity as at March 31st 2014 was PLN 673m, having increased on December 31st 2013 mainly as a result of the PLN 20m net profit earned in the period.

As at March 31st 2014, the Group's liabilities under borrowings increased by PLN 36m on the end of 2013, chiefly as a result of the buy-back of shares in MDF (a subsidiary) financed partially with a loan. One of the reasons for taking out the loan was the need to optimise the debt to equity ratio.

Trade and other payables fell mainly on the back of lower trade payables, higher turnover ratio of liabilities, and payment of the amount due under purchase of shares in a subsidiary.

**Consolidated statement of comprehensive income for the period January 1st – March 31st 2014
 (PLN '000)**

	Note	Total Jan 1– Mar 31 2014	Total Jan 1– Mar 31 2013
Continuing operations			
Revenue		396,822	354,463
Cost of sales		(324,441)	(297,869)
Gross profit		72,381	56,594
Other income (*)		3,121	9,394
Distribution costs		(29,536)	(24,594)
Administrative expenses		(14,042)	(18,642)
Other expenses		(1,848)	(8,058)
Operating profit		30,076	14,694
Finance income (*)		285	8,376
Finance costs		(4,637)	(15,584)
Net finance costs	3	(4,352)	(7,208)
Profit before tax		25,724	7,486
Income tax expense		(5,404)	(3,055)
Net profit on continuing operations		20,320	4,431
Discontinued operations			
Net profit on discontinued operations		0	102,188
Net profit for the reporting period		20,320	106,619
Attributable to non-controlling interests		0	2,358
Attributable to owners of the parent		20,320	104,261
EBITDA		42,086	25,214
Other items of comprehensive income			
Exchange differences on translating foreign operations		(74)	15,820
Exchange differences on net investments in subsidiaries		0	3,829
Effective portion of loss on fair-value measurement of hedging instruments, including corporate income tax		456	213
Other items of comprehensive income		382	19,862
Comprehensive income for the period attributable to:			
Owners of the parent		20,702	122,595
Non-controlling interests		0	3,886
Comprehensive income for the period		20,702	126,481
Basic earnings per share (PLN)		0.41	2.10
Diluted earnings per share (PLN)		0.41	2.10

(*)change of the presentation of operating exchange differences, detailed information see III.1.c

Consolidated statement of changes in equity for the period January 1st – March 31st 2014 (PLN '000)

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Cash flow hedges	Retained earnings	Total
As at Jan 1 2014	16,376	289,806	207,809	619	(84)	0	137,749	652,275
Comprehensive income for the period								
Net profit	0	0	0	0	0	0	20,320	20,320
Other comprehensive income								
Exchange differences on translating foreign operations	0	0	0	0	(74)	0	0	(74)
Exchange differences on net investments in subsidiaries	0	0	0	0	0	0	0	0
Exchange differences on forward contracts	0	0	0	0	0	456	0	456
Total other comprehensive income	0	0	0	0	(74)	456	0	382
Total comprehensive income for the period	0	0	0	0	(74)	456	20,320	20,702
Transactions with owners recognised in equity								
	0	0	0	0	0	0	0	0
As at Mar 31 2014	16,376	289,806	207,809	619	(158)	456	158,069	672,977

Consolidated statement of changes in equity for the period January 1st – December 31st 2013 (PLN '000)

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Exchange differences on net investments in subsidiaries	Retained earnings	Total	Non-controlling interests	Total
As at Jan 1 2013	16,376	289,806	195,806	619	(14,292)	(3,829)	42,906	527,392	57,773	585,165
Comprehensive income for the period										
Net profit	0	0	0	0	0	0	152,541	152,541	15,017	167,558
Other comprehensive income										
Exchange differences on translating foreign operations	0	0	0	0	14,208	0	0	14,208	(45)	14,163
Exchange differences on net investments in subsidiaries	0	0	0	0	0	3,829	0	3,829	0	3,829
Total other comprehensive income	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>14,208</i>	<i>3,829</i>	<i>0</i>	<i>18,037</i>	<i>(45)</i>	<i>17,992</i>
Total comprehensive income for the period	0	0	0	0	14,208	3,829	152,541	170,578	14,972	185,550
Transactions with owners recognised in equity										
Loss of control of subsidiary Pfleiderer MDF OOO	0	0	0	0	0	0	0	0	5,004	5,004
Purchase of non-controlling interest	0	0	0	0	0	0	(45,696)	(45,696)	(77,749)	(123,444)
Transfer of part of 2012 net profit to statutory reserve funds	0	0	12,003	0	0	0	(12,003)	0	0	0
Transactions with owners recognised in equity	<i>0</i>	<i>0</i>	<i>12,003</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>(57,699)</i>	<i>(45,696)</i>	<i>(72,745)</i>	<i>(118,441)</i>
As at Dec 31 2013	16,376	289,806	207,809	619	(84)	0	137,749	652,275	0	652,275

Consolidated statement of changes in equity for the period January 1st – March 31st 2013 (PLN '000)

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Exchange differences on net investments in subsidiaries	Cash flow hedges	Retained earnings	Total	Non-controlling interests	Total
As at Jan 1 2013	16,376	289,806	195,806	619	(14,292)	(3,829)	0	42,906	527,392	57,773	585,165
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	104,261	104,261	2,358	106,619
Other comprehensive income											
Exchange differences on translating foreign operations	0	0	0	0	14,292	0	0	0	14,292	1,528	15,820
Exchange differences on net investments in subsidiaries	0	0	0	0	0	3,829	0	0	3,829	0	3,829
Exchange differences on forward contracts	0	0	0	0	0	0	213	0	213		213
Total other comprehensive income	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>14,292</i>	<i>3,829</i>	<i>213</i>	<i>0</i>	<i>18,334</i>	<i>1,528</i>	<i>19,862</i>
Total comprehensive income for the period	0	0	0	0	14,292	3,829	213	104,261	122,595	3,886	126,481
Transactions with owners recognised in equity											
	0	0	0	0	0	0	0	0	0	0	0
As at Mar 31 2013	16,376	289,806	195,806	619	0	0	213	147,167	649,987	61,659	711,646

Consolidated statement of cash flows for the period January 1st – March 31st 2014 (PLN '000)

	Jan 1– Mar 31 2014	Jan 1– Mar 31 2013
Cash flows from operating activities		
Net profit for the reporting year	20,320	106,619
Adjustments	13,075	(139,705)
Depreciation and amortisation	12,010	10,520
Foreign exchange gains/losses	(231)	348
Interest for the period	4,192	14,373
Profit/loss on investing activities	(158)	429
Income tax disclosed in profit or loss of the period	5,404	(8,160)
Change in trade and other receivables	(12,829)	(27,315)
Change in inventories	31,644	3,518
Change in trade and other payables	(24,704)	(36,260)
Change in employee benefit obligations	(2,222)	624
Amortisation of government grants	(207)	(1,283)
Change in exchange differences from consolidation	(70)	(6,063)
Other adjustments	78	0
Other adjustments - foreign exchange differences from the translation of deferred tax	0	352
Net profit/loss on discontinued operations	0	(90,973)
Result on forward contracts	168	185
Cash flows from operating activities	33,395	(33,086)
Interest received / paid	59	458
Income tax paid	(1,948)	(58,886)
Net cash from operating activities	31,506	(91,514)
Cash flows from investing activities		
Disposal of non-current assets	184	(429)
Disposal of property, plant and equipment held for sale net of cash	2,158	679,859
Loans advanced to other entities	(4,770)	(205)
Interest received	216	0
Acquisition of a subsidiary and minority interests	(30,311)	(1)
Acquisition of property, plant and equipment and intangible assets	(27,256)	(11,471)
Net cash from investing activities	(59,779)	667,753
Cash flows from financing activities		
Repayment of borrowings and other debt instruments	(1,000)	(471,759)
Increase in borrowings and other debt instruments	37,327	21,862
Interest paid	(4,153)	(9,968)
Net cash from financing activities	32,174	(459,865)
Change in cash	3,901	116,374
Cash at beginning of the period	16,450	17,518
Cash at end of the period, including	20,351	133,892

VII. CAPITAL EXPENDITURE

In Q1 2014, the Pfleiderer Grajewo Group's capex was PLN 8.3m.

VIII. SUPPLEMENTARY INFORMATION

1. Material agreements

On January 9th 2014, Silekol Sp. z o.o. of Kędzierzyn Koźle, a subsidiary of Pfleiderer Grajewo S.A., executed a framework agreement with Grupa Azoty Zakłady Azotowe Puławy S.A. of Puławy for the supply of urea, which Silekol Sp. z o.o. uses as a key feedstock in the manufacture of adhesive amino resins. Under the agreement, the supplier agreed to supply urea to Silekol Sp. z o.o. in specified amounts, and Silekol Sp. z o.o. agreed to accept the supplied urea. The purchase price of the urea will be determined based on a price formula specified in the supply agreement. The agreement has been concluded for a period of five years, and the total value of urea to be supplied throughout its term is estimated at PLN 216.4m. The agreement may be terminated with six months' notice if either Party defaults on a material obligation under the agreement and fails to duly fulfil that obligation in accordance with the agreement within 30 days of having been called to do so. For the Azoty Group, the agreed urea supplies will be coordinated by Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

On January 9th 2014, Silekol Sp. z o.o. of Kędzierzyn Koźle, a subsidiary of Pfleiderer Grajewo S.A., executed a framework agreement with Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. of Kędzierzyn Koźle for the supply of urea, which Silekol Sp. z o.o. uses as a key feedstock in the manufacture of adhesive amino resins. Under the agreement, GA ZAK agreed to supply urea to Silekol Sp. z o.o. in specified amounts, and Silekol Sp. z o.o. agreed to accept the supplied urea. The purchase price of the urea will be determined based on a price formula specified in the supply agreement. The agreement has been concluded for a period of five years, and the total value of urea to be supplied throughout its term is estimated at PLN 694.2m. The agreement provides for contractual penalties in the event of failure to supply or accept urea in maximum amounts representing 25% of the value of urea not supplied or not accepted. Payment of the contractual penalties does not preclude the Parties' right to seek compensation in excess of these amounts. The agreement may be terminated with six months' notice if either Party defaults on a material obligation under the agreement and fails to duly fulfil that obligation in accordance with the agreement within 30 days of having been called to do so. Within the Azoty Group, urea supplies will be coordinated by GA ZAK.

On January 20th 2014, Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Service GmbH of Neumarkt, Germany, as the seller, signed an agreement for the purchase of shares in subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo. The purchase agreement was signed in performance of the preliminary purchase agreement of December 27th 2013, following fulfilment of a condition provided for in the preliminary agreement. The purchase agreement concerned 135,328 non-preference shares with a par value of PLN 500 per share. The purchase price for the shares amounted to EUR 6,988 thousand (an equivalent of PLN 29,070 thousand).

On January 30th 2014, Pfleiderer Prospan S.A. of Wieruszów, a subsidiary of Pfleiderer Grajewo S.A., terminated the factoring agreement signed with PEKAO Faktoring Sp. z o.o. of Lublin on September 26th 2007. The agreement was terminated following the expiry of a one-month notice period, on February 28th 2014. The termination follows from the decision to change factoring firms financing Pfleiderer Prospan SA's trade receivables and does not entail any material financial consequences for Pfleiderer Prospan SA.

Simultaneously, on January 30th 2014, Pfleiderer Prospan S.A. and BZ WBK Faktor Sp. z o.o. of Warsaw signed a factoring agreement for non-recourse financing of Pfleiderer Prospan S.A.'s trade receivables, with a limit of PLN 80,000,000. The agreement was made subject to the condition precedent that it will enter into force on the day when BZ WBK Faktor Sp. z o.o. receives Pfleiderer Prospan SA's

representation on termination and settlement of the factoring agreement between Pfleiderer Prospan SA and PEKAO Faktoring Sp. z o.o.

On February 28th 2014 Pfleiderer Prospan S.A. of Wieruszów, a subsidiary, has delivered to BZ WBK Faktor Sp. z o.o. of Warsaw its representation on the termination and settlement of the factoring agreement between Pfleiderer Prospan S.A. and PEKAO Faktoring Sp. z o.o. of Lublin. As the result the condition precedent from the factoring agreement dd. January 30th 2014 concluded between Pfleiderer Prospan S.A. and BZ WBK Faktor Sp. z o.o. was fulfilled and the agreement entered into force.

2. Inventories written down to net realisable value and reversal of inventory write-downs

In the statement of financial position, inventories are recognised net of write-downs. In Q1 2014, the Group recognised inventory write-downs of PLN 141 thousand. Inventory write-downs are recognised under other expenses and reversals – under other income.

3. Impairment losses and reversal of impairment losses on financial assets, property, plant and equipment, intangible assets and other assets

In Q1 2014, the Group did not recognise any impairment losses on property, plant and equipment. In Q1 2014, the Group recognised impairment losses on receivables of PLN 517.6 thousand.

4. Provisions

As at the end of Q1 2014, the Group held a provision for employee benefit obligations of PLN 8,328 thousand, updated as at December 31st 2013 by an actuary. The provision for employee benefit obligations is the only provision recognised by the Group under IAS.

5. Deferred tax assets and liabilities

In Q1 2014, deferred tax assets and deferred tax liabilities increased by PLN 0.8m and PLN 1.3m, respectively, relative to the end of 2013.

6. Material purchase and sale transactions in property, plant and equipment

In Q1 2014, the Group acquired property, plant and equipment for PLN 6.1m, including mainly the group 5 tangible assets: new lacquering line (PLN 1.2m), decor printer (PLN 1.1m), board packing machine (PLN 0.5m), telehandler (PLN 0.2m), flaker (PLN 0.2m), as well as group 7 tangible assets: three forklifts (PLN 1.0m total), and wheel loader (PLN 1.0m).

In the first quarter of 2014, the Group did not make any significant reductions from the sale of fixed assets.

7. Material liabilities under purchase of property, plant and equipment

As at the end of Q1 2014, the Group carried liabilities under purchase of property, plant and equipment of PLN 5.4m.

8. Guarantees and sureties

As at March 31st 2014, subsidiaries of the Pfleiderer Grajewo Group disclosed sureties issued for the liabilities of other Group companies. No surety or guarantee was disclosed for liabilities of any entities outside the Pfleiderer Grajewo Group.

The sureties were granted by Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Silekol Sp. z o.o. and secured exclusively the liabilities of other Group companies under bank borrowings.

Pfleiderer Grajewo S.A., the Parent, issued six sureties for a total amount of up to PLN 65,649 thousand. As at March 31st 2014, the amount of underlying debt secured with the sureties was PLN 17,700 thousand.

The subsidiary Pfleiderer Prospan S.A. granted seven sureties for a total amount of up to PLN 268,000 thousand, with the largest of the sureties being:

- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of the credit facilities extended to Pfleiderer Grajewo S.A. by Bank Millennium S.A. under an agreement of June 26th 2013,
 - two sureties for a total amount of up to PLN 115,000 thousand securing the repayment of the credit facilities extended to Pfleiderer Grajewo S.A. by Alior Bank S.A. under an agreement of June 26th 2013.
- As at March 31st 2014, the amount of underlying debt secured with the sureties was PLN 48,572 thousand.

The subsidiary Silekol Sp. z o.o. issued seven sureties for a total amount of up to PLN 268,000 thousand, with the largest of the sureties being:

- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of the credit facilities extended to Pfleiderer Grajewo S.A. by Bank Millennium S.A. under an agreement of June 26th 2013,
 - two sureties for a total amount of up to PLN 115,000 thousand securing the repayment of the credit facilities extended to Pfleiderer Grajewo S.A. by Alior Bank S.A. under an agreement of June 26th 2013.
- As at March 31st 2014, the amount of underlying debt secured with the sureties was PLN 39,615 thousand.

Other Group subsidiaries did not issue any sureties or guarantees.

9. Changes in contingent assets and liabilities

The Group's contingent liabilities under plant and equipment operating lease agreements amounted to PLN 12.7m and PLN 18.3m as at March 31st 2014 and as at the end of December 2013 respectively.

For information on contingent liabilities under surety agreements, see Section 8.

10. Issue, redemption and repayment of equity and non-equity securities

In Q1 2014, Pfleiderer Grajewo S.A. carried out five issues of commercial paper in the form of short-term notes with a view to optimising the Group's liquidity management. The notes were issued under the Note Issue Programme Agreement executed on July 22nd 2003 with Bank PEKAO S.A. The notes were issued in accordance with the Polish Bonds Act of June 29th 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at par value.

The notes were acquired by subsidiary Pfleiderer Prospan S.A.

11. Defaults under bank borrowings and other debt instruments with respect to which no remedial action was taken by the end of the reporting period

As at March 31st 2014, no such events occurred.

12. Dividend

In Q1 2014, no decisions concerning dividend payment were made.

13. Performance forecast

Given the fast-changing market environment, Pfleiderer Grajewo S.A., the Parent, did not publish any performance forecasts for 2014.

14. Material events subsequent to March 31st 2014

After March 31st 2014, Pfleiderer Grajewo S.A. carried out seven issues of commercial paper in the form of short-term notes with a view to optimising the Group's liquidity management. The notes were issued under the Note Issue Programme Agreement executed on July 22nd 2003 with Bank PEKAO S.A. The notes were issued in accordance with the Polish Bonds Act of June 29th 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Prospan S.A.

15. Changes in the Group structure

For detailed information on changes in the Group structure, see Section 1b of these consolidated financial statements for Q1 2014.

16. Transactions with owners and related entities

In Q1 2014, Pfleiderer Grajewo S.A., the Parent, carried out five issues of short-term notes, all of which were acquired by Pfleiderer Prospan S.A., a subsidiary.

For information on agreements on acquisition of shares from related entities, see Section 1b.

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

As at the date of this Report, the Management Board members held the following equity interests in Pfleiderer Grajewo S.A.:

Wojciech Gątkiewicz, President of the Management Board, held 5,400 Pfleiderer Grajewo S.A. shares,
 Rafał Karcz, Member of the Management Board, held 3,472 Pfleiderer Grajewo S.A. shares,
 Dariusz Tomaszewski, Member of the Management Board, held 4,108 Pfleiderer Grajewo S.A. shares.

As at the report date, members of the Pfleiderer Grajewo Supervisory Board did not hold any shares in the Parent.

18. Pfleiderer Grajewo Group shareholder structure as at the report release date

Shareholder structure as at May 15th 2014	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Pfleiderer Service GmbH	32,308,176	65.11%	32,308,176	65.11%
Aviva OFE Aviva BZ WBK	4,928,816	9.93%	4,928,816	9.93%
ING OFE	2,639,144	5.32%	2,639,144	5.32%
Other shareholders	9,747,864	19.64%	9,747,864	19.64%
TOTAL	49,624,000	100.00%	49,624,000	100.00%

The information on the number of Company shares held by Aviva OFE (former Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK) is sourced from the most recent notification of shareholding change, received by the Company on July 9th 2007.

The information on the number of Pfleiderer Grajewo S.A. shares held by ING OFE is sourced from the most recent notification of shareholding change, received by the Parent on June 5th 2009.

In Q1 2014, the number of Parent shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

19. Court proceedings

On April 2nd 2012, Pfleiderer Grajewo S.A. (the parent) and Pfleiderer Prospan S.A. (a subsidiary) received a decision of the President of the Office of Competition and Consumer Protection, dated March 30th 2012, concerning the instigation of anti-trust proceedings on suspicion that 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. acted in collusion to frustrate competition on the domestic chipboard and fibreboard markets.

During the proceedings, Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A., its subsidiary, provided additional information required by the Office. At present, the Parent's Management Board is not able to assess the risk based on the information available to it or determine the estimated closing date of the proceedings.

Other than the proceedings referred to above, there are no court, arbitration or administrative proceedings pending with respect to any liabilities or claims of the Group companies, whose value would represent 10% or more of the Parent's equity.

20. Material settlements under court proceedings

As at March 31st 2014, the Group did not carry any material settlements under court proceedings. In Q1 2014, there were no circumstances which would substantiate the recognition of any provisions for costs of court proceedings.

21. Corrections of errors of past periods

By the end of Q1 2014, the Group did not correct any errors of past periods.

22. Other material information

There were no other material events in Q1 2014.

23. Financial instruments

The Group manages all types of financial risk described below, which may have a significant effect on its operations in the future. In its risk management process, the Group focuses on the following risk types:

- credit risk,
- market risk, including interest rate risk and currency risk,
- 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 purpose of market risk management is to control this risk and maintain market risk exposure within assumed parameters. The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position from the point of view of cash flows. To manage its currency risk, it first relies on natural hedging and where necessary uses forward contracts and currency swaps.

As at March 31st 2014, the Parent Pfleiderer Grajewo S.A. held 11 open EUR/PLN FX forward contracts for the sale of a total of EUR 10,000 thousand by the end of September 2014. The contracts were measured at PLN 456 thousand as at March 31st 2014.

As at March 31st 2014, subsidiary Silekol Sp. z o.o. had three derivative contracts, including two EUR/PLN swaps and one EUR/PLN FX forward, for the sale of a total of EUR 3,040 thousand by May 15th 2014. The contracts were measured at PLN 153 thousand as at March 31st 2014.

As at March 31st 2014, no other Group companies were parties to derivative contracts.

In Q1 2014, the Group did not hedge its exposure to interest rate risk or commodity price risk.

The objective of financial liquidity management is to protect the Group from insolvency. This objective is pursued through regular projection of debt levels in a five-year horizon, and arrangement of appropriate financing sources.

24. Business segments

Since 2013, the Group has identified Poland as its only geographical segment.

In Q1 2014, the Group's sales increased by 12% year on year, with export sales accounting for approximately ca. 32.8% of the total. The Group's key export destinations include Russia, Germany, Lithuania, Belarus, Kazakhstan, and Sweden.

25. Notes to the consolidated statement of financial position
Note 1 – Trade and other receivables (PLN '000)

	Mar 31 2014	Dec 31 2013	Mar 31 2013
Trade receivables	67,651	40,558	57,935
Receivables from related entities	34,176	38,826	9,940
Current prepayments and accrued income	6,764	7,025	18,667
Current VAT receivables	4,910	15,114	6,773
Other receivables	21,826	10,787	31,564
Total	135,327	112,310	124,879

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

	Mar 31 2014	Dec 31 2013	Mar 31 2013
Trade payables	107,680	130,833	112,703
Liabilities to related entities	7,824	5,784	5,379
VAT liabilities	40	154	26
Liabilities under factoring agreements	32,403	37,462	15,649
Liabilities under investment supplies	5,367	18,091	2,961
Prepaid deliveries	963	2,437	760
Liabilities under acquisition of non-controlling interest in a subsidiary	0	29,360	0
Other liabilities	12,122	16,139	17,862
Total	166,399	240,260	155,340

26. Notes to the consolidated statement of comprehensive income (PLN '000) – Note 3
Note 4 – Finance income and costs

	Jan 1– Mar 31 2014	Jan 1– Mar 31 2013
Finance income		
Interest income	125	536
Gain on derivative instruments	150	185
Foreign exchange gains	10	7,625
Other finance income	0	30
	285	8,376
Finance costs		
Interest expense	(4,317)	(14,909)
Loss on derivative instruments	(102)	0
Other finance costs	(218)	(675)
	(4,637)	(15,584)
Net finance income / costs	(4,352)	(7,208)

27. Currency translation of financial data

Data of the subsidiary Grajewo OOO was translated as follows:

- items for the Group's statement of financial position were translated at the closing exchange rate quoted by the National Bank of Poland (NBP) for the reporting date;
- items for the statement of comprehensive income were translated at the exchange rate computed as the arithmetic mean of monthly exchange rates quoted in Q1 2014.

Date	RUB	PLN
Jan 31 2014	RUB 1	0.0889
Feb 28 2014	RUB 1	0.0838
Mar 31 2014	RUB 1	0.0852
RUB exchange rate at the end of Q1 2014		0.0852
Arithmetic mean for Q1 2014		0.0860

Selected financial information presented in these financial statements was translated into the euro in the following manner:

- items for the Group's statement of financial position were translated at the closing exchange rate quoted by the National Bank of Poland (NBP) for the reporting date;
- items for the statement of comprehensive income were translated at the exchange rate computed as the arithmetic mean of monthly exchange rates quoted in Q1 2014.

Date	EUR	PLN
Jan 31 2014	EUR 1	4.2368
Feb 28 2014	EUR 1	4.1602
Mar 31 2014	EUR 1	4.1713
EUR exchange rate at the end of Q1 2014		4.1713
Arithmetic mean for Q1 2014		4.1894

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

Separate statement of financial position as at March 31st 2014 (PLN '000)

	Total	Total	Total
Note	Mar 31 2014	Dec 31 2013	Mar 31 2013
Current assets			
Property, plant and equipment	113,899	116,340	100,739
Intangible assets	1,672	1,619	2,119
Investments in related entities	785,752	785,752	562,335
Other non-current financial assets	75	18,738	215
Deferred tax asset	0	0	25,161
Non-current loans advanced to subsidiaries	9,652	9,525	440
Non-current receivables – prepayments for tangible assets	5,637	4,936	604
Non-current assets	916,687	936,910	691,613
Inventories	59,108	65,240	62,236
Income tax receivable	20,419	20,399	0
Trade and other receivables	69,524	53,204	99,258
Cash and cash equivalents	9,316	4,826	79,747
Loans advanced to other entities	0	0	22,966
Cash flow hedges	456	0	213
Current assets	158,823	143,669	264,420
Total assets	1,075,510	1,080,579	956,033
Equity			
Share capital	16,376	16,376	16,376
Share premium	289,806	289,806	289,806
Statutory reserve funds	207,762	207,762	195,759
Cash flow hedges	456	0	213
Retained earnings	112,177	109,085	91,265
Total equity	626,577	623,029	593,419
Liabilities			
Borrowings and other debt instruments	0	0	25,327
Employee benefit obligations	6,114	6,114	5,412
Deferred tax liabilities	1,154	406	0
Non-current liabilities	7,268	6,520	30,739
Borrowings and other debt instruments	44,728	26,652	0
Income tax payable	0	0	23
Liabilities to related entities under debt securities	301,619	289,671	236,067
Trade and other payables	84,128	122,112	79,873
Employee benefit obligations	11,190	12,595	15,912
Current liabilities	441,665	451,030	331,875
Total liabilities	448,933	457,550	362,614
Total equity and liabilities	1,075,510	1,080,579	956,033

OFF-BALANCE-SHEET ITEMS	As at Mar 31 2014 End of Q1 2014 (PLN '000)	As at Dec 31 2013 End of Q4 2013 (PLN '000)	As at Mar 31 2013 End of Q1 2013 (PLN '000)
Contingent liabilities	17,700	4,622	4,656
To other entities, including:	17,700	4,622	4,656
- guarantees and sureties issued	17,700	4,622	4,656
Total off-balance-sheet items	17,700	4,622	4,656

Separate statement of comprehensive income for the period January 1st – March 31st 2014 (PLN '000)

	Total Jan 1– Mar 31 2014	Total Jan 1– Mar 31 2013
Continuing operations		
Revenue	171,281	161,284
Cost of sales	(148,152)	(141,717)
Gross profit	23,129	19,567
Other income *)	2,472	6 257
Distribution costs	(11,042)	(7,032)
Administrative expenses	(6,624)	(8,568)
Other expenses	(815)	(4,916)
Operating profit	7,120	5,243
Finance income *)	319	8 135
Finance costs	(3,618)	(13,091)
Net finance income / (costs)	(3,299)	(4,891)
Profit before tax	3,821	352
Income tax expense	(729)	10,490
Net profit on continuing operations	3,092	10,842
Profit on discontinued operations	0	45,338
Net profit for the reporting period	3,092	56,180
Total comprehensive income for the period	3,092	56,180
Basic earnings per share (PLN)	0.06	1.13
Diluted earnings per share (PLN)	0.06	1.13

*) data for the first quarter of 2013, modified in accordance with paragraph 1c.

Separate statement of changes in equity for the period January 1st–March 31st 2014 (PLN '000)

	Share capital	Share premium	Statutory reserve funds	Cash flow hedges	Retained earnings	Total
As at Jan 1 2014	16,376	289,806	207,762	0	109,085	623,029
Comprehensive income for the period						
Net profit	0	0	0		3,092	3,092
Valuation of forward transactions				456		
Comprehensive income for the period	0	0	0	456	3,092	3,548
Transactions with owners recognised in equity						
As at Dec 31 2014	0	0	0	0	0	0
As at Dec 31 2014	16,376	289,806	207,762	456	112,177	626,570

Separate statement of changes in equity for the period January 1st – December 31st 2013 (PLN '000)

	Share capital	Share premium	Statutory reserve funds	Retained earnings	Total
As at Jan 1 2013	16,376	289,806	195,759	35,085	537,026
Comprehensive income for the period					
Net profit	0	0	0	86,003	86,003
Comprehensive income for the period	0	0	0	86,003	86,003
Transactions with owners recognised in equity					
Transfer of part of 2012 net profit to statutory reserve funds	0	0	12,003	(12,003)	0
Transactions with owners recognised in equity	0	0	12,003	(12,003)	0
As at Dec 31 2013	16,376	289,806	207,762	109,085	623,029

Separate statement of changes in equity for the period January 1st – March 31st 2013 (PLN '000)

	Share capital	Share premium	Statutory reserve funds	Cash flow hedges	Retained earnings	Total
As at Jan 1 2013	16,376	289,806	195,759	0	35,085	537,026
Comprehensive income for the period						
Net profit	0	0	0	0	56,180	56,180
Valuation of forward transactions				213	0	213
Comprehensive income for the period	0	0	0	0	56,180	56,393
Transactions with owners recognised in equity	0	0	0	0	0	0
As at Mar 31 2013	16,376	289,806	195,759	213	91,265	593,419

Separate statement of cash flows for the period January 1st – March 31st 2014 (PLN '000) and the comparative period.

	Jan 1– Mar 31 2014	Jan 1– Mar 31 2013
Cash flows from operating activities		
Net profit/loss	3 085	56 180
Adjustments	9,359	(60,620)
Depreciation and amortisation	3,520	3,135
Foreign exchange gains/losses	(219)	(4,167)
Dividend and interest for the period	3,269	10,426
Gain/loss on disposal of shares	0	(88,107)
Gain/loss on disposal of intangible assets and property, plant and equipment	(116)	19
Income tax assessed	729	32,101
Change in trade and other receivables	(6,040)	473
Change in inventories	6,132	1,301
Change in trade and other payables	3,197	(16,495)
Change in employee benefit obligations	(1,405)	183
Result on forward contracts	214	159
Other adjustments	78	352
Cash flows from operating activities	12,444	(4,440)
Interest received	31	282
Interest paid	(13)	(39)
Income tax paid	0	(58,224)
Net cash from operating activities	12,462	(62,421)
Cash flows from investing activities		
Disposal of property, plant and equipment	116	(19)
Interest received	0	28,199
Dividend and profit distributions	0	0
Acquisition of a subsidiary	(30,341)	0
Disposal of property, plant and equipment held for sale net of cash	2,158	474,428
Acquisition of intangible assets and property, plant and equipment	(6,558)	(2,790)
Adjustments concerning spare parts	0	
Repayment of loans advanced	0	171,839
Loans advanced	0	(5,540)
Net cash from investing activities	(34,625)	666,117
Cash flows from financing activities		
Repayment of borrowings and other debt instruments	0	(462,077)
Increase in borrowings and other debt instruments	18,076	0
Redemption of debt securities	(373,422)	(218,608)
Issue of debt securities	384,699	160,556
Interest paid	(2,700)	(5,539)
Cash flows from financing activities	26,653	(525,668)
Change in cash	4,490	78,028
Cash at beginning of the period	4,826	1,719
Cash at end of the period	9,316	79,747

Supplementary notes to the condensed separate financial statements of Pfleiderer Grajewo S.A., the Parent
1. Notes to the separate statement of financial position
Note 1 – Trade and other receivables (PLN '000)

	Mar 31 2014	Dec 31 2013	Mar 31 2013
Trade receivables from other entities	23,450	10,044	23,533
Trade and other receivables from related entities	18,247	24,312	29,778
Current prepayments and accrued income	3,363	3,758	10,607
Current VAT receivables	4,071	5,156	4,023
Other receivables	20,393	9,934	31,317
Total	69,524	53,204	99,258

Other receivables included mainly receivables under sale of shares in a subsidiary, totalling PLN 8,294 thousand.

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

	Mar 31 2014	Dec 31 2013	Mar 31 2013
Trade payables	33,547	38,598	41,156
Liabilities to related entities	28,898	14,509	22,183
Liabilities under factoring agreements	14,110	19,591	8,643
Liabilities under investment supplies	2,044	6,773	1,492
Liabilities related to shares acquired in a subsidiary	0	29,360	0
Other liabilities	5,529	13,281	6,399
Total	84,128	122,112	79,873

Other liabilities include primarily accrued expenses and other provisions