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**PFLEIDERER GRAJEWO GROUP
DIRECTORS' INTERIM REPORT
ON THE OPERATIONS OF THE PFLEIDERER GRAJEWO GROUP
FOR THE PERIOD JANUARY 1ST–
JUNE 30TH 2014**

PFLEIDERER GRAJEWO GROUP

Interim Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st–June 30th 2014

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**Interim Directors' Report on the operations of the Pfleiderer Grajewo Group in the period
January 1st–June 30th 2014**

1. Financial highlights

	Jan 1–Jun 30 2014	Jan 1–Jun 30 2013	Jan 1–Jun 30 2014	Jan 1–Jun 30 2013
	PLN '000		EUR '000	
Revenue	777,655	695,713	186,113	165,096
Operating profit	70,266	35,708	16,816	8,474
Profit before tax	62,533	21,115	14,966	5,011
Net profit attributable to owners of the parent	49,923	110,120	11,948	26,132
Net cash from operating activities	100,955	(61,347)	24,161	(14,558)
Net cash from investing activities	(50,746)	662,270	(12,145)	157,159
Net cash from financing activities	(38,027)	(502,261)	(9,101)	(119,189)
Total net cash flow	12,182	98,662	2,915	23,412
Basic earnings per share (PLN/EUR)	1.01	2.22	0.24	0.53
Diluted earnings per share (PLN/EUR)	1.01	2.22	0.24	0.53
PLN/EUR average exchange rate			4.1784	4.2140

	Jun 30 2014	Dec 31 2013	Jun 30 2014	Dec 31 2013
	PLN '000		EUR '000	
Total assets	1,105,931	1,118,793	265,791	269,771
Total liabilities	403,444	466,518	96,961	112,490
Non-current liabilities	125,262	134,647	30,105	32,467
Current liabilities	278,182	331,871	66,856	80,023
Total equity	702,487	652,275	168,831	157,281
Share capital	16,376	16,376	3,936	3,949
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000
Book value per share (PLN/EUR)	14.16	13.14	3.40	3.17
PLN/EUR exchange rate as at the reporting date			4.1609	4.1472

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2. General information

The Pfleiderer Grajewo Group consists of single-division enterprises. The Group's parent is Pfleiderer Grajewo S.A. (the Parent), whose principal place of business in Grajewo, a town in north-eastern 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. On September 18th 2002, the Company's Management Board received the decision of the District Court of Białystok to enter the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Parent's name was changed to Pfleiderer Grajewo S.A. Its registered office is situated at ul. Wiórowa 1, Grajewo, Poland. Pfleiderer Grajewo S.A. shares are publicly traded. In accordance with the Polish Classification of Business Activities, Pfleiderer Grajewo S.A. is registered under No. 1621 Z. Tax Identification Number (NIP): 719-10-00-479, Industry Identification Number (REGON): 450093817.

List of companies of the Pfleiderer Grajewo Group, including their business profiles:

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

- 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 address: ul. Bolesławiecka 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 address: ul. Mostowa nr 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,

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- 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 address: ul. Wiórowa nr 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 address: 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 address: ul. Bolesławiecka 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 address: 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.

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

The company conducts trading activities in Russia.

List of jointly-controlled entities

Blitz 11-446 GmbH – entered in the Commercial Register by the Court in Nuremberg, under No. HRB 28 166.

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

Business profile:

- exports, in particular to Russia and Eastern Europe,
- provision of investment-related services.

The business of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o. consists of the manufacture and veneering of wood and wood-based products, impregnation of paper, trade in Poland and abroad, provision of industrial services related to its core business, as well as other services based on resources held. Subsidiary Grajewo OOO conducts operations in Russia. The other companies provide services and supply raw materials to the Group entities.

As at June 30th 2014, the Parent's Management Board consisted of:

- Wojciech Gałkiewicz, President of the Management Board
- Rafał Karcz, Member of the Management Board
- Dariusz Tomaszewski, Member of the Management Board

As at June 30th 2014, the composition of the Parent's Supervisory Board was as follows:

- Michael Wolff, Chairman of the Supervisory Board
- Richard Mayer, Member of the Supervisory Board
- Jochen Schapka, Member of the Supervisory Board
- Gerd Schubert, Member of the Supervisory Board
- Jan Woźniak, Member of the Supervisory Board

On June 23rd 2014, Mr Gerd Hammerschmidt resigned from the position of Member of the Supervisory Board of Pfleiderer Grajewo S.A. effective June 29th 2014.

On June 30th 2014, Mr Gerd Schubert was appointed as a new member of the Parent's Supervisory Board.

The audit committee duties were assigned to the Parent's Supervisory Board as a whole.

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3. Structure of the Group

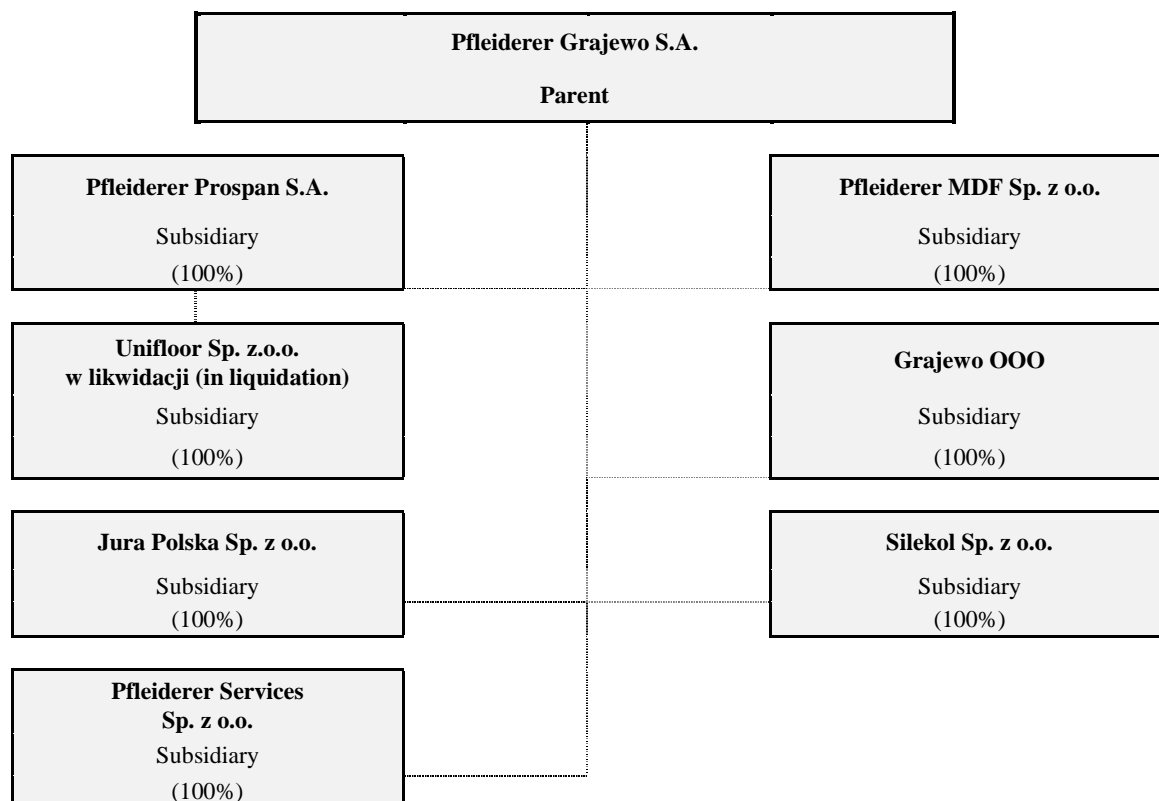
Pfleiderer Grajewo S.A. is the Parent of the following companies:

Consolidated subsidiaries	Jun 30 2014	Dec 31 2013
1 Pfeleiderer Prospan S.A. Wieruszów	100%	100%
2 Silekol Sp. z o.o. Kędzierzyn-Koźle	100%	100%
3 Pfeleiderer MDF Sp. z o.o. Grajewo	100%	100%
4 Jura Polska Sp. z o.o. Grajewo	100%	100%
5 Unifloor Sp. z o.o. in liquidation Wieruszów	100%	100%
6 Grajewo OOO Novgorod (Russia)	100%	100%
Jointly-controlled entities accounted for using the equity method		
7 Blitz 11-446 GmbH Neumarkt	50%	50%
Entities which are not consolidated and are not accounted for using the equity method		
8 Pfeleiderer Services Sp. z o.o. of Grajewo	100%	100%

(5) Indirectly through Pfeleiderer Prospan S.A.

(6) Purchase of shares on April 16th 2013.

As at June 30th 2014, the structure of the Group was as follows:



The main shareholder of the Parent, Pfeleiderer Grajewo S.A., is Pfeleiderer Service GmbH, which holds 65.11% of the Parent's shares and the same proportion of total voting rights at its General Meeting.

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4. Pfleiderer Grajewo S.A.'s shareholding structure

Shareholding structure	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%

In the period from January 1st 2014 to the date of this Directors' Report on the operations of the Pfleiderer Grajewo Group, the number of Parent shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

The information on the number of Pfleiderer Grajewo S.A. shares held by Aviva is sourced from the most recent notification of shareholding change, received by the Parent on July 10th 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.

The Group is not aware of any other changes in its shareholding structure.

5 Pfleiderer Grajewo S.A. shares or entitlements to shares held by its management and supervisory staff

In the period from January 1st 2014 to the date of this Directors' Report, the numbers of Parent shares held by the members of its Management Board and Supervisory Board did not change compared with December 31st 2013 and as the date of this Report were as follows:

- 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 June 30th 2014, members of the Pfleiderer Grajewo Supervisory Board did not hold any shares in the Parent.

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6 Information material to the assessment of Group's personnel, assets, financial standing and performance, and changes in any of the foregoing, and for the assessment of the Group's ability to fulfil its obligations
6.1 Financial standing of the Pfleiderer Grajewo Group

The structure of financing of the Group's assets was as follows as at the reporting date:

<i>all amounts in PLN thousand</i>	Jun 30 2014	Dec 31 2013
Equity (attributable to owners of the parent)	702,487	652,275
Non-controlling interests	0	0
Total equity	702,487	652,275
Non-current liabilities	125,262	134,647
Long-term capital (total equity + non-current liabilities)	827,749	786,922
Current liabilities	278,182	331,871

In H1 2014, the Group financed its operations chiefly with short- and long-term bank borrowings.

As at June 30th 2014, the Group's liabilities under bank borrowings were PLN 155,090 thousand (December 31st 2013: PLN 154,531 thousand).

For detailed information on the bank borrowings and loans from related entities, see Note 8.1 to this Report.

Moreover, the Pfleiderer Grajewo Group supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. z o.o. The limit available to Pfleiderer Grajewo S.A., and Pfleiderer MDF Sp. z o.o., under this financing instrument is PLN 200m. On January 30th 2014, Pfleiderer Prospan SA and BZ WBK Faktor Sp. z.o.o with registered office in Warsaw signed factoring agreement on non-recourse financing of its trade receivables with a limit of PLN 80 m. Additionally, subsidiary Silekol Sp. z o.o. signed a non-recourse factoring agreement with WBK Faktor Sp. z o.o. with a limit of PLN 15m. The above are off-balance sheet items.

The internal financing in the Pfleiderer Grajewo Group comprises mainly loans advanced by Pfleiderer Grajewo S.A. to its subsidiary Pfleiderer MDF Sp. z o.o. as well as issues and purchases of short-term notes (commercial paper). The notes are issued by Pfleiderer Grajewo S.A. and acquired by Pfleiderer Prospan S.A. The issuance programme and the loans are designed to provide financing to all of the Group's entities and optimise cash management within the Group.

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6.2 Revenue and profit

In the period January 1st–June 30th 2014, the Group's revenue totalled PLN 777,655 thousand, having grown by PLN 81.942 thousand (11.8%) as compared to the period January 1st–June 30th 2013.

The table below presents revenue by product group:

<i>all amounts in PLN thousand</i>	Jan 1–Jun 30 2014	% share	Jan 1–Jun 30 2013	% share
Revenue from sale of products	742,835	95.5%	662,987	95.3%
Chipboard	569,350	73.2%	497,937	71.6%
Finish foil (foil, edge banding, edge foil)	47,801	6.2%	40,548	5.8%
Adhesive resins	123,949	15.9%	122,176	17.6%
Other chemical products	1,735	0.2%	2,326	0.3%
Revenue from sale of merchandise and materials	16,367	2.1%	16,549	2.4%
Materials	5,528	0.7%	3,313	0.5%
Merchandise	10,839	1.4%	13,236	1.9%
Revenue from rendering of services	18,453	2.4%	16,177	2.3%
Total sales	777,655	100.0%	695,713	100.0%

In the period January 1st–June 30th 2014, the Group reported a strong increase in revenue from sale of products: 12% year on year. This increase was attributable mainly to the improved market situation.

In the period January 1st–June 30th 2014, the Group's operating profit reached PLN 70,266 thousand, having nearly doubled (up PLN 34,558 thousand) and derived of gross profit growth of about 36% in the analysed period. Net profit was PLN 49,923 thousand, up PLN 34,800 thousand compared with the same period of the previous year, mainly thanks to lower finance costs in the period under analysis.

6.3 Workforce and remuneration at the Group

As at June 30th 2014, the Group employed 1,254 staff, including executives and personnel hired on the basis of managerial contracts or appointed by the Supervisory Board (as at December 31st 2013: 1,272 staff).

The Group's workforce structure as at the end of the reporting period was as follows:

	Jun 30 2014	Dec 31 2013
Employees directly involved in production	655	663
Employees indirectly involved in production	274	272
Administration, office and other employees	325	337
	1,254	1,272

Remuneration paid and payable for the reporting period to members of the Parent's Management Board, including bonuses, was PLN 2,803 thousand. In addition, members of the Parent's Management Board received remuneration at Pfleiderer Prospan S.A., which totalled PLN 1,301 thousand.

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

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

The managerial contract with Mr Dariusz Tomaszewski, member of the Management Board, contains a provision entitling Mr Tomaszewski to a one-off termination benefit equal to his one-month remuneration if the contract is terminated by notice.

Remuneration paid to members of the Supervisory Board of Pfleiderer Grajewo S.A. for the period January 1st–June 30th 2014 was PLN 313 thousand.

As at June 30th 2014, Mr Dariusz Tomaszewski, Management Board Member, had outstanding debt of PLN 26 thousand under a loan from subsidiary Pfleiderer Prospan. S.A. (December 31st 2013: PLN 26 thousand). The other Management Board members had no outstanding debt to the Group under loans.

7 Material related-party transactions

For information on related-party transactions as at June 30th 2014 and for the period January 1st–June 30th 2014, see Note 12 in supplementary notes to the interim consolidated financial statements of the Pfleiderer Grajewo Group.

In the period January 1st–June 30th 2014, all of the Group's related-party transactions were executed on arms' length terms.

8. Financial instruments

8.1 Overview of financial instruments

a) Derivative instruments

Forward and swap transactions included purchase of foreign currencies at a predetermined rate.

As at June 30th 2014, the Group held 11 open forward positions for a total amount of EUR 9.8m. Forward contracts are executed in order to hedge currency risk related to business transactions (sale of products, purchase of raw materials, capital expenditure in foreign currencies).

The Group applies hedge accounting, and therefore the effective portion of gains or losses on fair value measurement of forward hedging instruments is recognised under other comprehensive income and presented separately as 'cash flow hedges' under 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 in 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 a derivative instrument is recognised immediately in the current period's profit or loss.

As at June 30th 2014, the fair value of the open forwards was PLN 372 thousand. In H1 2014, the result on settled forward contracts was PLN 946 thousand.

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b) Loans received

As at June 30th 2014, the Pfleiderer Grajewo Group did not carry any borrowings from related parties.

c) Bank borrowings

On June 26th and 27th 2013, Pfleiderer Grajewo S.A. (the Parent) and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Group for the next five years.

Credit facility agreement with Bank Millennium S.A.

On June 26th 2013, the Parent entered into two credit facility agreements with Bank Millennium S.A., for an aggregate amount of PLN 100,000,000, including a PLN 75,000,000 multi-purpose credit facility agreement and an up to PLN 25,000,000 thousand overdraft facility agreement.

At the same time, Pfleiderer Prospan S.A., a subsidiary of the Parent, entered into an overdraft facility agreement with Bank Millennium S.A., for up to PLN 10,000,000. Moreover, the subsidiary Silekol Sp. z o.o. entered into an overdraft facility agreement with Bank Millennium S.A., for up to PLN 10,000,000. Total liabilities of all the three borrowers under the four credit facility agreements with Bank Millennium S.A. may not exceed an aggregate of PLN 100,000,000. The multi-purpose credit facility agreement provides for the repayment of the entire loan after five years from its execution, while the overdrafts are to be repaid in full after three years. The facilities will be used to finance day-to-day operations of the borrowers.

Credit facility agreement with Alior Bank S.A.

On June 26th 2013, the Parent entered into a PLN 75,000,000 credit facility agreement with Alior Bank S.A. The facility, used to finance the Parent's day-to-day operations, is to be repaid in full after five years from the execution of the agreement. At the same time, the Parent and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into an overdraft facility agreement with Alior Bank S.A., for up to PLN 25,000,000, under which the bank granted to the Parent an overdraft limit of PLN 25,000,000 and separate sub-limits of PLN 10,000,000 to each of Pfleiderer Prospan S.A. and Silekol Sp. z o.o. The facility, used to finance the day-to-day operations of the borrowers, is repayable in full after three years from the execution of the agreement. The total liabilities of all the three borrowers under the two credit facility agreements with Alior Bank S.A. may not exceed an aggregate of PLN 100,000,000.

Credit facility agreement with Bank Zachodni WBK S.A.

On June 26th 2013, the Parent entered into a PLN 45,000,000 multi-purpose credit facility agreement with Bank Zachodni WBK S.A. The credit facility, intended to ensure liquidity and finance capital expenditure, is to be repaid in full after five years from the execution of the agreement. At the same time, the Parent and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into an overdraft facility agreement with Bank Zachodni WBK S.A., for up to PLN 15,000,000 (a joint overdraft limit for all three borrowers). The facility, intended to ensure liquidity and finance capital expenditure, is to be repaid in full after three years from the execution of the agreement. Total liabilities of the three borrowers under the two agreements with Bank Zachodni WBK S.A. may not exceed an aggregate of PLN 60,000,000.

Credit facility agreement with Bank Ochrony Środowiska S.A.

On June 27th 2013, the Parent entered into a PLN 40,000,000 multi-purpose credit facility agreement with Bank Ochrony Środowiska S.A. to finance the Parent's day-to-day operations. The facility is to be repaid after five years from the date of execution of the agreement.

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Investment credit facility and multi-purpose credit facility from PKO BP S.A.

Additionally, subsidiary Pfleiderer MDF Sp. z o.o. uses an investment credit facility from PKO BP S.A., which is repayable in instalments by by October 15th 2018 (as at June 30th 2013, debt outstanding under the facility was PLN 87,396 thousand), and a multi-purpose credit facility for up to PLN 54m from the same bank, repayable by August 31th 2014. As at June 30th 2014, debt outstanding under the facility was PLN 25,188 thousand.

For information on interest rates applicable under the credit facility agreements with banks, see Note 8.1 in supplementary notes to the interim condensed consolidated financial statements of the Pfleiderer Grajewo Group.

8.2 Financial risks related to the Group's operations

a) Objectives and methods of financial risk management applied by the Group

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. The time horizon adopted for position monitoring and hedging transactions is up to 12 months.

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.

b) 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 creditworthiness.

The credit risk related to trade receivables is limited given the Group's broad and diversified customer base. Moreover, the Group operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and factoring. As at June 30th 2014, ca. 90% of total trade receivables from non-related parties were covered with trade credit insurance. The insurance policies secure credit risk – if a customer fails to pay, the insurer covers the loss (the insurance deductible is 10%).

In the period January 1st–June 30th 2014, 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.

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c) Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings. Interest rate risk is connected with loans payments under instruments bearing interest at floating rates. The Group does not hedge the interest rate risk.

d) Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of materials and merchandise, and sale of finished goods. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses partially offset each other. The Group monitors its foreign currency positions on an ongoing basis and hedges open positions – first through natural hedging, and then through forward or swap contracts. The Group monitors its currency risk exposure in terms of cash flows.

In H1 2014, the Group entered into a number of EUR/PLN forward and swap contracts to hedge against currency risk related to planned trade transactions. As at June 30th 2014, the Group carried 11 open EUR/PLN forward contracts hedging the currency risk related to its business transactions. As at June 30th 2014, the Group had no open swap contracts.

e) Liquidity risk

As at June 30th 2014, the Pfleiderer Grajewo Group had debt under bank borrowings of PLN 155m. It also had undrawn credit facilities of PLN 286m, most of which were long-term facilities. The Group also held cash of PLN 29m.

The exposure to currency, credit and interest rate risks did not materially change from the release of the Group's most recent full-year report for 2013.

9 Sureties granted and security established over the Group's assets

As at June 30th 2014, the Group carried no outstanding sureties or guarantees.

As at June 30th 2014, the Group had established the following security:

- Mortgage over properties and registered pledge over plant and equipment

A mortgage on properties and a registered pledge over plant and equipment serve as security for an investment credit facility granted to Pfleiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose facility obtained to finance the construction of the new MDF board production plant in Grajewo. The mortgage secures a liability of up to PLN 356,860 thousand.

The registered pledge over plant and equipment secures liabilities of up to PLN 450,000 thousand and was created over a changing set of assets owned by Pfleiderer MDF Sp. z o.o. The pledge is reviewed on a quarterly basis to take account of changes in the company's movable assets (plant and equipment, vehicles). As at June 30th 2014, the Group's debt under the investment facility totalled PLN 87.4m (December 31st 2013: PLN 90.8m).

- Mortgage over property located at ul. Wiórowa, Grajewo and registered pledge over assets and rights

A mortgage of up to PLN 80,000 thousand over property located at ul. Wiórowa, Grajewo, on which the MDF

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plant is situated, serves as security for a multi-purpose credit facility for a total of PLN 54,000 thousand, granted to the Group by PKO Bank Polski S.A. under a credit facility agreement executed with Pfleiderer MDF Sp. z o.o. on August 29th 2007.

The pledge was created under an agreement on registered pledge over assets and rights, dated July 30th 2010, concluded between Pfleiderer MDF Sp. z o.o. and PKO Bank Polski S.A. The pledge in favour of PKO Bank Polski secures liabilities of up to PLN 83,163 thousand under a multi-purpose credit facility of PLN 54,000 thousand. It was created in connection with the extension of the term of the working capital loan by three years, until September 30th 2013. The same assets are also encumbered with a pledge created earlier for the benefit of PKO Bank Polski S.A. in connection with an investment credit facility agreement of January 15th 2007.

As at June 30th 2014, the Group's debt under the multi-purpose credit facility totalled PLN 25.2m (December 31st 2013: PLN 37.1m).

- Mortgages over properties in Grajewo and Wieruszów, on which the production plants of Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A. are situated, established in favour of four banks (Bank Millennium S.A., Alior Bank S.A., Bank Zachodni WBK S.A. and BOŚ S.A.) which had advanced credit facilities to Pfleiderer Grajewo S.A. (the Parent), Pfleiderer Prospan S.A. and Silekol Sp. z o.o. (subsidiaries) under relevant credit facility agreements for a total amount of PLN 300m

Mortgages over developed properties, including the Parent's production plant in Grajewo and Pfleiderer Prospan S.A.'s production plant in Wieruszów, in favour of four banks, ranking *pari passu*, including:

- in favour of Bank Millennium S.A. for up to PLN 97,500,000 to secure: a PLN 75,000,000 credit facility advanced to Pfleiderer Grajewo S.A. (multi-product facility agreement), an overdraft facility with an overdraft limit of PLN 25,000,000 advanced to Pfleiderer Grajewo S.A., an overdraft facility with an overdraft limit of PLN 10,000,000 advanced to Pfleiderer Prospan S.A., and an overdraft facility with an overdraft limit of PLN 10,000,000 advanced to Silekol Sp. z o.o.,

- in favour of Alior Bank S.A. for up to PLN 150,000,000 to secure: a PLN 75,000,000 credit facility advanced to Pfleiderer Grajewo S.A., and an overdraft facility with an overdraft limit of PLN 25,000,000 advanced to Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Silekol Sp. z o.o.,

- in favour of Bank Zachodni WBK S.A. for up to PLN 120,000,000 to secure: a PLN 45,000,000 credit facility advanced to Pfleiderer Grajewo S.A., and an overdraft facility with an overdraft limit of PLN 15,000,000 advanced to Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Silekol Sp. z o.o.,

- in favour of Bank Ochrony Środowiska S.A. for up to PLN 60,000,000 to secure a PLN 40,000,000 credit facility advanced to Pfleiderer Grajewo S.A.

Concurrently, to secure credit facilities for a total of PLN 300,000 thousand extended to the Group by four banks (Bank Millennium S.A., Alior Bank S.A., Bank Zachodni WBK S.A. and BOŚ S.A.) under credit facility agreements concluded by Pfleiderer Grajewo S.A. (the Parent) and Pfleiderer Prospan S.A. and Silekol Sp. z o.o. (subsidiaries), a pledge was created over plant and equipment installed at the two plants in Grajewo and Wieruszów owned by, respectively, Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A.

The pledge agreements provide for the following maximum amounts of security:

- in the case of the pledge in favour of Bank Millennium S.A. – PLN 66,150,000 (for Pfleiderer Grajewo S.A.'s plant and equipment) and PLN 46,350,000 (for Pfleiderer Prospan S.A. plant and equipment);

- in the case of the pledge in favour of Alior Bank S.A. – PLN 200,000,000 for all pledged plant and equipment;

- in the case of the pledge in favour of Bank Zachodni WBK S.A. – PLN 120,000,000 for all pledged plant and equipment;

- in the case of the pledge in favour of Bank Ochrony Środowiska S.A. – PLN 14,257,880 for all pledged plant

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and equipment.

In addition, Pfleiderer Prospan S.A. and Silekol Sp. z.o.o. provided a surety for the Parent's liabilities under the credit facilities with Bank Millennium S.A. and Alior Bank S.A. for up to PLN 115,000,000.

10 Anti-trust 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 Company's equity.

11 Management Board's position on the feasibility of meeting previously published financial forecasts

The Pfleiderer Grajewo Group has not published any forecasts for 2014. Given the current economic climate, the Group will also refrain from publishing its forecast for 2015 until the Polish market of furniture manufacturers becomes more stable.

12 Factors with a bearing on the Group's performance in the subsequent period

The stronger sales reported in the first half of 2014 bode well for the near-term future. Capital expenditures incurred in the first half of the year are expected to have positive impact on the quality of products sold. Stable prices of chemical feedstocks, market recovery driven by higher demand from the furniture industry, continued growth of furniture export sales and growing domestic demand are all expected to help the Company maintain its current sales level in the second half of 2014. Negative deviations in films sales should be offset by the expected increase in melamine-faced board sales volumes and a slight increase in the price of raw and melamine-faced board.

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13 Events subsequent to the reporting date

According to the information of August 14th 2014, Subsidiary Pfleiderer MDF Sp. z.o.o signed an annex to the loan agreement with PKO BP SA for an extension of multi - purpose credit agreement for a period of one year - until August 31st 2015. At the same time the overdraft and revolving loan was extended until August 31st 2015..

Management Board of Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A.

Wojciech Gałkiewicz

President of the Management Board

Rafał Karcz

*Member of the Management Board, Chief
Financial Officer*

Dariusz Tomaszewski

Member of the Management Board, Sales Director

Grajewo, August 25nd 2014