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THE PFLEIDERER GRAJEWO GROUP

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE PERIOD

JANUARY 1ST–JUNE 30TH 2014

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PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2014, item 133), the Management Board of Pfleiderer Grajewo S.A. (the Parent) represents that to the best of its knowledge the interim condensed consolidated financial statements and interim condensed separate financial statements for the period January 1st–June 30th 2014 and the comparative data have been prepared in compliance with the applicable accounting policies and give a fair and clear view of the Pfleiderer Grajewo Group's and Pfleiderer Grajewo S.A.'s, respectively, assets, financial standing and financial performance, and that the interim Directors' Report on the Pfleiderer Grajewo Group's operations and interim Directors' Report on the Pfleiderer Grajewo S.A.'s operations give a fair view of the development, achievements and standing of the Pfleiderer Grajewo Group and Pfleiderer Grajewo S.A., respectively, and include a description of the key risks and threats.

The Management Board of Pfleiderer Grajewo S.A. (the Parent) represents that the auditing firm that reviewed the Pfleiderer Grajewo Group's interim condensed consolidated financial statements and Pfleiderer Grajewo S.A.'s interim condensed separate financial statements was appointed in compliance with applicable laws, and that both the auditing firm and the auditors who performed the review meet the conditions required to issue an objective and independent report on the reviewed interim condensed consolidated financial statements and interim condensed separate financial statements, in accordance with the applicable laws and professional standards.

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 25th 2014

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated statement of comprehensive income

		Jan 1– Jun 30 2014	Jan 1– Jun 30 2013	Apr 1– Jun 30 2014	Apr 1– Jun 30 2013
	Note	unaudited	unaudited restated*)	unaudited	unaudited restated*)
Continuing operations					
Revenue	1	777,655	695,713	380,833	341,250
Cost of sales*)		(626,083)	(584,028)	(301,642)	(286,159)
Gross profit		151,572	111,685	79,191	55,091
Other income*)		4,916	12,761	1,795	3,367
Distribution costs		(55,211)	(45,203)	(25,675)	(20,609)
Administrative expenses		(27,589)	(35,213)	(13,547)	(16,571)
Other expenses*)		(3,422)	(8,322)	(1,574)	(264)
Operating profit		70,266	35,708	40,190	21,014
Finance income*)	3	899	6,192	682	534
Finance costs *)	3	(8,632)	(20,785)	(4,063)	(7,919)
Net finance costs		(7,733)	(14,593)	(3,381)	(7,385)
Profit before tax		62,533	21,115	36,809	13,629
Income tax expense	5	(12,610)	(5,992)	(7,206)	(2,937)
Net profit on continuing operations		49,923	15,123	29,603	10,692
Profit/(loss) on discontinued operations		0	101,141	0	(1,047)
Net profit for the reporting period		49,923	116,264	29,603	9,645
Other items of comprehensive income/expenses					
Exchange differences on translating foreign operations		(18)	14,247	56	0
Exchange differences on net investments in subsidiaries		0	3,829	0	0
Effective portion of gains on fair-value measurement of hedging instruments		307	(1,490)	(149)	(1,703)
Other items of comprehensive income/expenses		289	16,586	(93)	(1,703)
Comprehensive income for the period		50,212	132,850	29,510	7,942
Net profit attributable to:					
Owners of the parent		49,923	110,120	29,603	5,859
Non-controlling interests		0	6,144	0	3,786
Net profit for the reporting period		49,923	116,264	29,603	9,645
Comprehensive income for the period attributable to:					
Owners of the parent		50,212	126,751	29,510	4,156
Non-controlling interests		0	6,099	0	3,786
Comprehensive income for the period		50,212	132,850	29,510	7,942
Basic earnings/(loss) per share (PLN)		1.01	2.22	0.60	0.12
Diluted earnings per share (PLN)		1.01	2.22	0.60	0.12

*) restated comparative data, see note 5b.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Interim condensed consolidated statement of changes in equity

Period January 1st–June 30th 2014

	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
As at Jan 1 2014	16,376	289,806	207,809	619	(84)	0	0	137,749	652,275
Comprehensive income for the period									
Net profit	0	0	0	0	0	0	0	49,923	49,923
Other comprehensive income									
Exchange differences on translating foreign operations	0	0	0	0	(18)	0	0	0	(18)
Exchange differences on forward contracts	0	0	0	0	0	0	307	0	307
Total other comprehensive income	0	0	0	0	(18)	0	307	0	289
Total comprehensive income for the period	0	0	0	0	(18)	0	307	49,923	50,212
Transactions with owners recognised in equity									
Transfer of part of 2013 net profit to statutory reserve funds	0	0	86,003	0	0	0	0	(86,003)	0
Transactions with owners recognised in equity	0	0	86,003	0	0	0	0	(86,003)	0
As at Jun 30 2014	16,376	289,806	293,812	619	(102)	0	307	101,669	702,487

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(all amounts in PLN thousand)

Period January 1st–December 31st 2013

	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	0	0	0	0	14,208	3,829	0	18,037	(45)	17,992
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	0	0	12,003	0	0	0	(57,699)	(45,696)	(72,745)	(118,441)
As at Dec 31 2013	16,376	289,806	207,809	619	(84)	0	137,749	652,275	0	652,275

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Period January 1st–June 30th 2013

	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	110,120	110,120	6,144	116,264
Other comprehensive income											
Exchange differences on translating foreign operations	0	0	0	0	14,292	0	0	0	14,292	(45)	14,247
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	(1,490)	0	(1,490)	0	(1,490)
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>(1,490)</i>	<i>0</i>	<i>16,631</i>	<i>(45)</i>	<i>16,586</i>
Total comprehensive income for the period	0	0	0	0	14,292	3,829	(1,490)	110,120	126,751	6,099	132,850
Transactions with owners recognised in equity											
Loss of control of subsidiary Pfeleiderer MDF OOO	0	0	0	0	0	0	0	0	0	5,004	5,004
Transfer of part of 2012 net profit to statutory reserve funds	0	0	12,003	0	0	0	0	(12,003)	0	0	0
Transactions with owners recognised in equity	0	0	12,003	0	0	0	0	(12,003)	0	5,004	5,004
As at Jun 30 2013	16,376	289,806	207,809	619	0	0	(1,490)	141,023	654,143	68,876	723,019

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(all amounts in PLN thousand)

Interim condensed consolidated statement of financial position

	<u>Note</u>	<u>Jun 30 2014</u> <u>unaudited</u>	<u>Dec 31 2013</u>
Assets			
Property, plant and equipment	4	643,507	623,837
Intangible assets		1,888	1,607
Goodwill		107,829	107,829
Investments in jointly controlled entities		52	52
Other non-current financial assets		5,075	18,738
Investment property		3,995	3,995
Deferred tax asset		16,146	14,652
Prepayments for property, plant and equipment		8,195	5,578
Government grants receivable		9,866	14,627
Non-current assets		796,553	790,915
Inventories		154,260	177,692
Current tax assets		97	21,110
Trade and other receivables	6	123,880	112,310
Cash and cash equivalents		28,632	16,450
Other current financial assets		2,509	316
Current assets		309,378	327,878
Total assets		1,105,931	1,118,793
Equity and liabilities			
Equity			
Share capital	7	16,376	16,376
Share premium		289,806	289,806
Statutory reserve funds		293,812	207,809
Revaluation reserve		619	619
Exchange differences on translating foreign operations		(102)	(84)
Cash flow hedges		307	0
Retained earnings		101,669	137,749
Equity (attributable to owners of the parent)		702,487	652,275
Total equity		702,487	652,275
Liabilities			
Borrowings	8	74,546	86,801
Employee benefit obligations		8,020	8,020
Provisions		795	786
Deferred tax liabilities		13,218	9,700
Deferred income from government grants		28,683	29,340
Non-current liabilities		125,262	134,647
Borrowings	8	80,544	67,730
Income tax payable		2,381	500
Trade and other payables	9	173,355	240,260
Employee benefit obligations		20,553	22,032
Deferred income from government grants		1,349	1,349
Current liabilities		278,182	331,871
Total liabilities		403,444	466,518
Total equity and liabilities		1,105,931	1,118,793

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(all amounts in PLN thousand)

Interim condensed consolidated statement of cash flows

	Jan 1– Jun 30 2014 unaudited	Jan 1– Jun 30 2013 unaudited
Cash flows from operating activities		
Net profit	49,923	116,264
Adjustments	33,789	(116,960)
Depreciation and amortisation	24,651	21,059
Foreign exchange gains	(1,204)	(3,915)
Interest for the period	8,009	19,032
Profit/loss on investing activities	(217)	145
Income tax disclosed in profit or loss of the period	12,610	6,732
Change in trade and other receivables	(5,359)	(62,852)
Change in inventories	23,432	5,749
Change in trade and other payables	(27,082)	978
Change in employee benefit obligations	(1,482)	(1,511)
Change in provisions	9	28
Amortisation of government grants	(657)	(614)
Result on forward and swap contracts	980	434
Change in exchange differences on translating foreign operations	(17)	0
Net result on discontinued operations	0	(102,459)
Other adjustments	116	234
Cash flows from operating activities	83,712	(696)
Interest received	174	826
Income tax received/(paid)	17,069	(61,477)
Net cash from operating activities	100,955	(61,347)
Cash flows from investing activities		
Disposal of intangible assets and property, plant and equipment	273	29
Acquisition of shares in a subsidiary	0	(9)
Interest received on loans advanced to other entities	216	0
Loans advanced to other entities	(7,000)	(1,200)
Loans advanced to related entities	0	(205)
Repayment of loans advanced to related entities	0	207
Acquisition of intangible assets and property, plant and equipment	(50,624)	(25,535)
Disposal of discontinued operations	6,389	688,983
Net cash from investing activities	(50,746)	662,270
Cash flows from financing activities		
Repayment of borrowings	(15,296)	(503,214)
Increase in borrowings	15,855	20,987
Acquisition of non-controlling interests	(30,341)	0
Interest paid	(8,245)	(20,034)
Net cash from financing activities	(38,027)	(502,261)
Total net cash flow	12,182	98,662
Change in cash	12,182	98,662
Cash at beginning of the period	16,450	17,518
Cash at end of the period	28,632	116,180

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

Notes to the interim condensed consolidated financial statements

1. General information

The parent entity of the Pfeleiderer Grajewo Group (the Parent) 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. On September 18th 2002, the Company's Management Board received the decision of the District Court of Białystok on entering the Company's new name, Pfeleiderer Grajewo S.A., in the National Court Register.

The registered office of Pfeleiderer Grajewo S.A. is situated at ul. Wiórowa 1, Grajewo, Poland.

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

These interim condensed consolidated financial statements of the Pfeleiderer Grajewo Group for the period January 1st – June 30th 2014 were approved by the Parent's Management Board on August 25th 2014.

2. Structure of the Group

Pfeleiderer 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. Grajewo	100%	100%

(5) Indirectly through Pfeleiderer Prospan S.A.

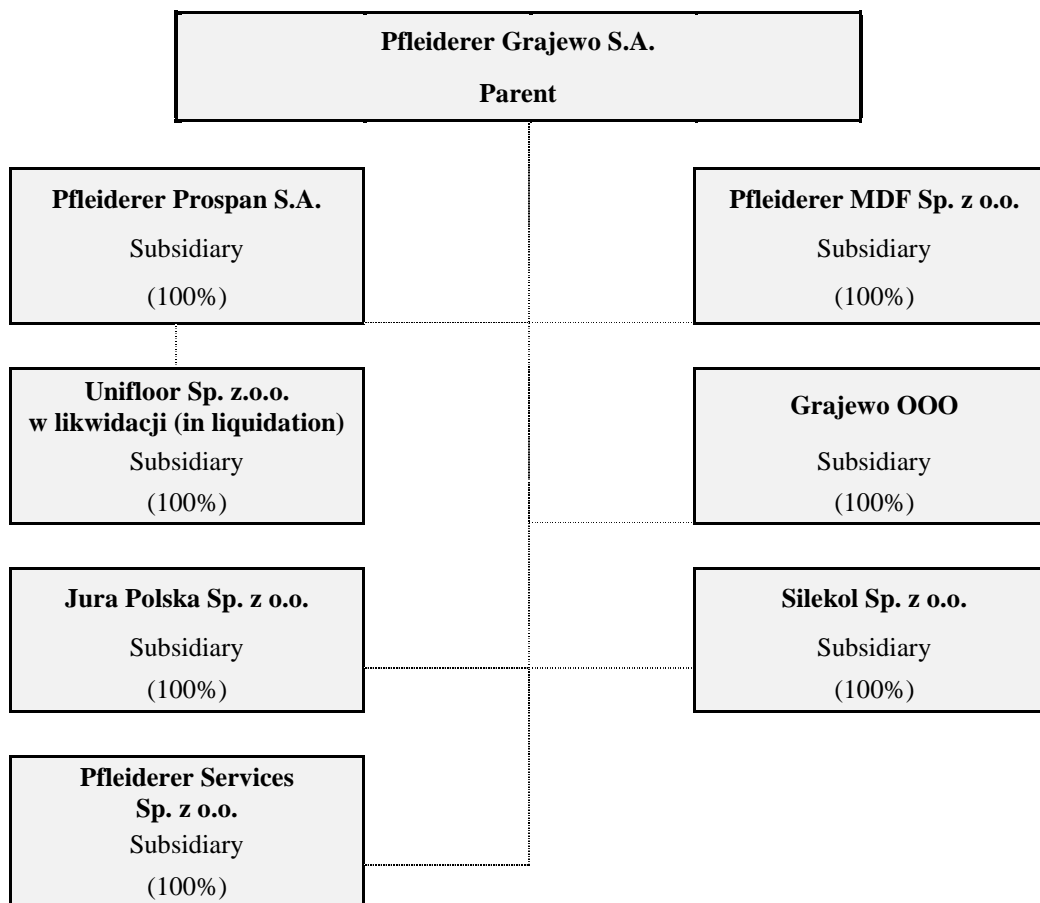
(6) Purchase of shares on April 16th 2013.

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

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



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

Changes in the Group's structure in the reporting period

No changes in the Group's structure occurred in H1 2014.

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.

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

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,
- 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,

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

- 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.

Uniform Registration Number: 1095321004130
Tax Identification Number (NIP): 5321135070
Registered address: 21/43 Studentitzeskaya 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.

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

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

As at June 30th 2014, 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 of the Management Board
3. Dariusz Tomaszewski, Member of the Management Board

As at June 30th 2014, the composition of the Supervisory Board of Pfleiderer Grajewo S.A. was as follows:

1. Michael Wolff, Chairman of the Supervisory Board
2. Richard Mayer, Member of the Supervisory Board
3. Jochen Schapka, Member of the Supervisory Board
4. Gerd Schubert, Member of the Supervisory Board
5. 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.

In accordance with a resolution of the Ordinary General Meeting, on June 30th 2014, Mr Gerd Schubert was appointed Member of the Parent's Supervisory Board.

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

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

These interim condensed consolidated financial statements were prepared for the period January 1st – June 30th 2014, while comparative financial data and notes to the financial statements were prepared as at December 31st 2013 and for the six months ended June 30th 2013. The statement of comprehensive income was prepared for the period January 1st – June 30th 2014 and includes comparative data for the same period of 2013.

5. Basis of preparation

a) Statement of compliance

These half-year condensed financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, Art. 55.5 and Art. 45.1a–1c of the Polish Accountancy Act (Dz.U. of 2013, item 330, as amended) and the secondary legislation issued thereunder, as well as in accordance with the requirements stipulated in the Polish Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2014, item 133).

b) Changes in accounting policies

Except of the changes discussed below, these interim condensed consolidated financial statements have been prepared in accordance with the accounting policies described in audited consolidated financial statements of Pfleiderer Grajewo Group for the financial year ended December 31st 2013. These financial

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

statements do not contain all information required in annual financial statements; therefore, they should be read in conjunction with the Group's audited annual consolidated financial statements for the financial year ended December 31st 2013.

The following amendments to the existing standards, endorsed by the European Union, are applicable to the Group's financial statements for the financial year begun January 1st 2014:

- **IFRS 10 Consolidated Financial Statements**, effective for annual periods beginning on or after January 1st 2014,
- **IFRS 11 Joint Arrangements**, effective for annual periods beginning on or after January 1st 2014,
- **IFRS 12 Disclosure of Interests in Other Entities**, effective for annual periods beginning on or after January 1st 2014,
- Amendments to **IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities**, effective for annual periods beginning on or after January 1st 2014,
- **IAS 27 (amended 2011) Separate Financial Statements**, effective for annual periods beginning on or after January 1st 2014,
- **IAS 28 (amended 2011) Investments in Associates and Joint Ventures**, effective for annual periods beginning on or after January 1st 2014,
- Amendments to **IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities**, effective for annual periods beginning on January 1st 2014,
- Amendments to **IAS 39 Financial Instruments: Recognition and Measurement** (Novation of Derivatives and Continuation of Hedge Accounting), effective for annual periods beginning on or after January 1st 2014,
- Amendments to **IAS 36 Impairment of Assets** (Recoverable Amount Disclosures for Non-Financial Assets), effective for annual periods beginning on or after January 1st 2014.
- Amendments to **IFRS 10, IFRS 12 and IAS 27: Investment Entities** – effective for annual periods beginning on January 1st 2014.

The adoption of these standards and interpretations has not caused any significant changes neither in the accounting policies of the Group nor in the presentation of financial statements.

With effect from H2 2013, the Grupa also changed the manner of presentation of foreign exchange gains and losses in the statement of comprehensive income. Foreign exchange gains and losses related to operating activities were reclassified from cost of sales to other income or expenses, as appropriate. The change affects the amount of gross profit. It does not affect, though, profit before tax.

With effect from H2 2013, the Group also changed the manner of presentation of foreign exchange gains and losses on forwards in the statement of comprehensive income. Foreign exchange gains and losses related to operating activities were reclassified from financing activities to other income or expenses, as appropriate. The change affects the amount of operating profit and net finance income/costs. It does not affect, though, profit before tax.

To ensure comparability of data presented in the financial statements, the Group has restated the statement of comprehensive income for the comparative periods. Accordingly, in H1 2013 other income increased by PLN 1,689 thousand and other expenses rose by PLN 84 thousand, while in Q2 2013 other income increased by PLN 1,378 thousand and other expenses rose by PLN 84 thousand. Cost of sales increased by PLN 2,724 thousand in H1 2013 and by PLN 1,127 thousand in Q2 2013. In H1 2013,

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

finance income went up by PLN 1,119 thousand, while for Q2 2013, finance income dropped by PLN 211 thousand and finance cost decreased by PLN 44 thousand.

Standards and interpretations not applied in these consolidated financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods ending on 31 December 2014 and have not been applied in these interim condensed consolidated financial statements. The Group intends to use them for the periods for which they are applicable for the first time.

The Group estimates that the following standards, interpretations and amendments to standards would not have had any material effect on the consolidated financial statements if they had been applied by the Group as at the reporting date, except for IFRS 9 Financial Instruments, which could materially affect the classification and measurement of financial assets. The Group does not plan earlier adoption of the standard as the effect of its application has not been estimated yet.

Standards and interpretations adopted by the IASB and approved by the EU

- **IFRIC 21 Levies**, effective for annual periods beginning on January 1st 2014.

Standards and interpretations adopted by the IASB and pending endorsement by the EU as at June 30th 2014

- **IFRS 9 Financial Instruments**, effective for annual periods beginning on January 1st 2018,
- Amendment to **IAS 19 Employee Benefits** Defined Benefit Plans: Employee Contributions, effective for annual periods beginning on July 1st 2014.
- **Amendments to the International Financial Reporting Standards 2010–2012** (annual improvements to IFRS 2010–2012 include eight amendments to seven standards, together with relevant amendments to other standards and interpretations), effective for annual periods beginning on July 1st 2014.
- **Amendments to the International Financial Reporting Standards 2011–2013** (annual improvements to IFRS 2011–2013 include four amendments to standards, together with relevant amendments to other standards and interpretations), effective for annual periods beginning on July 1st 2014.
- **IFRS 14 Regulatory Deferral Accounts**, effective for annual periods beginning on January 1st 2016.
- Amendments to **IFRS 11 Joint Arrangements** – accounting for interests in joint operations, effective for annual periods beginning on January 1st 2016.
- Amendments to **IAS 16 Property, plant and equipment and IAS 38 Intangible Assets** – explanations concerning acceptable methods of accounting for depreciation and amortisation, effective for annual periods beginning on January 1st 2016.
- Amendments to **IAS 16 Property, plant and equipment and IAS 41 Agriculture** – Agriculture: Bearer plants, effective for annual periods beginning on January 1st 2016.
- Amendments to **IFRS 15 Revenue from Contracts with Customers**, effective for annual periods beginning on January 1st 2017.

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Notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

c) Basis of accounting

These interim condensed consolidated financial statements were prepared in compliance with the historical cost convention, with the exception of financial derivatives and investment property, which were measured at fair value.

These interim consolidated financial statements of the Pfleiderer Grajewo Group were prepared on a going concern basis, i.e. assuming that the Group would continue as a going concern in the foreseeable future.

d) Functional and presentation currency

All figures disclosed in these interim condensed consolidated financial statements are expressed in the złoty (PLN) and rounded to the nearest thousand, unless indicated otherwise.

The functional currency of the Polish Group entities is the Polish złoty (PLN), while the functional currency of the foreign subsidiary, Grajewo OOO, is the Russian rouble (RUB).

e) Estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Any change in accounting estimates is recognised in the period in which such change occurred or in current and future periods if the performed estimate change relates to both the current and future periods.

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Supplementary notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

Supplementary notes to the interim condensed consolidated financial statements

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Supplementary notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

1. Operating segments

In prior periods, the Group identified two geographical segments based on where the assets were stored and operated. After the group of assets located in Russia was disposed of at January 23rd 2013, the Pfleiderer Grajewo Group operates in a single geographical segment: Poland.

Reporting segment	Companies comprising the segment	Business profile
Poland	Pfleiderer Grajewo S.A.	Production of chipboard
	Jura Polska Sp. z o.o.	Transport services – mainly to Polish companies of the Pfleiderer Grajewo Group
	Pfleiderer Prospan S.A.	Production of chipboard
	Unifloor Sp. z o.o. w likwidacji (in liquidation)	Company in liquidation
	Pfleiderer MDF Sp. z o.o.	Production of thin MDF board
	Silekol Sp. z o.o.	Production of resins and adhesives, mainly for the Group's purposes
	Grajewo OOO	Trading activities in Russia

The table below presents revenue of the reporting segment in the period January 1st – June 30th 2014.

Reporting segment	Jan 1–Jun 30 2014	Jan 1–Jun 30 2014
	Revenue outside the segment	Revenue outside the Group
Poland	777,655	777,655
Total	777,655	777,655

Revenue of the reporting segment in the period January 1st – June 30th 2014

Reporting segment	Jan 1–Jun 30 2013	Jan 1–Jun 30 2013
	Revenue outside the segment	Revenue outside the Group
Poland	695,713	695 713
Russia – discontinued operations*)	21,376	21,376
Total	717,089	717,089

*) Discontinued operations covers the period from 1st to January 23rd 2013.

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(all amounts in PLN thousand)

Reconciliation of the reporting segment's profit before tax

	Jan 1– Jun 30 2014	Jan 1– Jun 30 2013
	Profit before tax	Profit before tax
Poland	62,533	21,115
Russia – discontinued operations	0	(578)
Segments' profit	62,533	20,537
Inter-segment eliminations	0	0
Consolidated profit before tax	62,533	20,537
Including profit before tax from discontinued operations:	0	(578)

2. Seasonality of operations

Chipboard sales are subject to seasonal changes, in particular changes related to the seasonal nature of the construction cycle. Sales peak occurs in the second half of the calendar year whereas the lowest sales are generated in the second quarter of the calendar year.

3. Finance income and costs

Disclosed in profit or loss of the period:

	Jan 1– Jun 30 2014	Jan 1– Jun 30 2013	Apr 1– Jun 30 2014	Apr 1– Jun 30 2013
Finance income				
Interest income	347	980	222	444
Net foreign exchange gains	10	4,937	0	0
Gains on forward contracts	542	275	460	90
	899	6,192	682	534
Finance costs				
Interest expense	(8,356)	(20,013)	(4,039)	(5,104)
Net foreign exchange loss	0	0	0	(2,718)
Loss on forward contracts	(34)	0	0	0
Other finance costs	(242)	(772)	(24)	(97)
	(8,632)	(20,785)	(4,063)	(7,919)
Net finance costs of continuing operations	(7,733)	(14,593)	(3,381)	(7,385)
Net finance costs of discontinued operations	0	(2,983)	0	0
Net finance costs in the reporting period	(7,733)	(17,576)	(3,381)	(7,385)

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(all amounts in PLN thousand)

Financial income and costs include interest income and interest expenses related to assets and liabilities other than measured at fair value through profit and loss:

:

	Jan 1– Jun 30 2014	Jan 1– Jun 30 2013	Apr 1– Jun 30 2014	Apr 1– Jun 30 2013
Interest income	347	980	222	444
Interest expense	(8,356)	(20,013)	(4,039)	(5,104)
	<u>(8,009)</u>	<u>(19,033)</u>	<u>(3,817)</u>	<u>(4,660)</u>

Recognised in other comprehensive income:

	Jan 1– Jun 30 2014	Jan 1– Jun 30 2013	Apr 1– Jun 30 2014	Apr 1– Jun 30 2013
Effective portion of gains on fair-value measurement of hedging instruments	307	(1,490)	(149)	(1,703)
Exchange differences on net investments in subsidiaries	0	3,829	0	0
	<u>307</u>	<u>2,339</u>	<u>(149)</u>	<u>(1,703)</u>

4. Property, plant and equipment

In the period January 1st–June 30th 2014, the Group made capital expenditure totalling PLN 43,436 thousand. The expenditure, in particular, related to:

Pfleiderer Grajewo S.A.:

PLN 3,176 thousand – wastewater treatment plant upgrade;

PLN 1,029 thousand – wood chiptransport upgrade;

PLN 1,162 thousand – BISON dryer upgrade;

PLN 14,295 thousand – dry wood shavings sorting mill.

Pfleiderer Prospan S.A.:

PLN 1,781 thousand – transport of films to the KT press;

PLN 2,457 thousand – replacement of a steel belt in the CONTI press;

PLN 3,500 thousand – sorting plant upgrade.

Pfleiderer MDF Sp. z.o.o:

PLN 1,235 thousand – a lacquering line.

Silekol Sp. z.o.o:

PLN 1,215 thousand –the formalin production unit upgrade;

PLN 3,485 thousand – extension of Formalin III unit.

As at June 30th 2014, the Group had entered into purchase commitments for the acquisition of tangible fixed assets and intangible assets arising from contracts concluded at the reporting date.

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Supplementary notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

These purchase commitments relate to 79 open investment contracts in amount of PLN 29,146 thousand.

5. Income tax expense

The corporate income tax was computed with use of the weighted average tax rate planned for the financial year.

6. Trade and other receivables

	<u>Jun 30 2014</u>	<u>Dec 31 2013</u>
Trade receivables	55,716	40,558
Trade receivables from related parties	31,499	38,826
Prepayments and accrued income	5,297	7,025
VAT receivables	9,823	15,114
Receivables related to discontinued operations	18,724	8,294
Other receivables	2,821	2,493
Total	<u>123,880</u>	<u>112,310</u>

7. Equity

	<u>Jun 30 2014</u>	<u>Dec 31 2013</u>
Par value of share capital	16,376	16,376
Number of shares at beginning of period (fully paid up)	49,624,000	49,624,000
Number of shares at end of period (fully paid up)	49,624,000	49,624,000
Par value per share (PLN)	0.33	0.33
	<u>Jan 1–Jun 30 2014</u>	<u>Jan 1–Jun 30 2013</u>
Earnings per share attributable to owners of the parent (PLN)	1.01	2.29

All shares issued by Pfeiderer Grajewo S.A. (the Parent) are ordinary shares. Holders of ordinary shares are entitled to receive approved dividends and to one vote per share held at the Parent's General Meeting. All shares confer the same rights to share in the distribution, if any, of the Parent's assets.

Pfleiderer Grajewo S.A. is a subsidiary of Pfeiderer Service GmbH, which holds 65,11% of shares in Pfeiderer Grajewo S.A. In the period from January 1st to June 30th 2014, the number of Company shares held by its shareholder, Pfeiderer Service GmbH, did not change.

Statutory reserve funds

In 2014, the Group decided to transfer the net profit of 2013 in the amount of PLN 86,003 thousand to statutory reserve funds.

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(all amounts in PLN thousand)

Dividends

In H1 2014, the Parent took a resolution not to distribute dividend from the previous year profit.

8. Borrowings

	Jun 30 2014	Dec 31 2013
Non-current liabilities		
Non-current portion of interest-bearing bank borrowings	74,546	86,801
Total	74,546	86,801
Current liabilities		
Overdraft facility payable within 12 months from the reporting date	42,506	26,652
Current portion of interest-bearing bank borrowings	38,038	41,078
Total	80,544	67,730

8.1 Bank borrowings

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

All credit facilities used by the Group bear interest at variable interest rates based on WIBOR (depending on the facility currency) plus margin.

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 Parent and its subsidiaries for the next five years.

Repayment terms and schedules for bank borrowings as at June 30th 2014 and December 31st 2013:

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Supplementary notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

Lender	Borrower	Currency	Interest rate	Repayment date	Security	Jun 30 2014	
						Current portion	Non-current portion
Millennium S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2018	mortgage, registered pledge	16,850	0
Millennium S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	7,884	0
Millennium S.A.	Pfleiderer Prospan S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	76	0
Alior Bank S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2018	mortgage, registered pledge	8,949	0
Alior Bank S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	3,598	0
Bank Zachodni WBK S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	1,878	0
Bank Ochrony Środowiska S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2018	mortgage, registered pledge	3,271	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + margin	Apr 15 2015	mortgage, registered pledge, assignment	12,850	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + margin	Oct 15 2018	mortgage, registered pledge, assignment	0	74,546
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + margin	Aug 31 2014*)	mortgage, registered pledge, assignment	25,188	0
Total						80,544	74,546

*) According to the information of August 14th 2014. Subsidiary Pfleiderer MDF Sp. z.o.o signed an annex to the loan agreement with PKO Bank Polski 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.

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(all amounts in PLN thousand)

Lender	Borrower	Currency	Interest rate	Repayment date	Security	As at Dec 31 2013	
						Current portion	Non-current portion
Millennium S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2018	mortgage, registered pledge	5,042	0
Millennium S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	6,110	0
Alior Bank S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	4,491	0
Bank Zachodni WBK S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2016	mortgage, registered pledge	5,905	0
Bank Ochrony Środowiska S.A.	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Jun 25 2018	mortgage, registered pledge	5,104	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + margin	Oct 15 2014	mortgage, registered pledge, assignments	4,000	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + margin	Oct 15 2018	mortgage, registered pledge, assignments	0	86,801
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o.	PLN	WIBOR + margin	Aug 31 2014	mortgage, registered pledge, assignments	37,078	0
						67,730	86,801

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Supplementary notes to the interim condensed consolidated financial statements for the period January 1st–June 30th 2014

(all amounts in PLN thousand)

8.1.1 Credit facility agreements executed by the Parent and its subsidiaries

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.

For information on security provided for the above facilities, see Note 11 to these financial statements of the Pfleiderer Grajewo Group.

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(all amounts in PLN thousand)

8.1.2 Other credit facility agreements

In addition, Pfleiderer MDF Sp. z o.o. has an investment credit facility from PKO Bank Polski S.A., repayable in instalments by October 15th 2018. As at June 30th 2014, the Group's debt outstanding under the facility was PLN 87,396 thousand.

Additionally, Pfleiderer MDF Sp. z o.o. uses a PLN 54 million multi-purpose credit facility from PKO Bank Polski S.A., repayable by August 31st 2014. As at June 30th 2014, debt outstanding under the facility was PLN 25,188 thousand.

8.2 Borrowings from related parties

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

9. Trade and other payables

	<u>Jun 30 2014</u>	<u>Dec 31 2013</u>
Trade payables	106,220	130,833
Trade payables to related parties	5,013	5,784
Liabilities under factoring agreements	35,686	37,462
VAT liabilities	0	154
Liabilities under investment supplies	14,744	18,091
Prepaid deliveries	1,168	2,437
Liabilities related to redemption of minority interest	0	29,360
Other liabilities	10,524	16,139
Total	<u>173,355</u>	<u>240,260</u>

Other liabilities related mainly to accrued expenses and deferred income.

10. Financial instruments

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

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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.

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.

The exposure to credit, currency and interest rate risks did not change significantly compared with the data presented in the Group's most recent annual consolidated financial statements.

Liquidity risk

As at June 30th 2014, the Pfeiderer Grajewo Group carried debt under bank borrowings of PLN 155 million. It also had undrawn credit facility of PLN 286 million. The Group also held cash of PLN 29 million.

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

The fair values of financial assets and liabilities

The fair values of financial assets and liabilities approximate their carrying values as at June 30th 2014 and December 31st 2013.

11. Contingent liabilities and security

11.1. Liabilities under security

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 Pfeiderer 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 Pfeiderer 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 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 Pfeiderer 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

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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;

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

In addition, Pfleiderer Prospan S.A. and Silekol Sp. z.o.o. provided a guarantee 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.

11.2. Contingent liabilities

- Operating lease liabilities

As at June 30th 2014, the Group carried contingent liabilities of PLN 11.2m under operating lease agreements providing for the lease of plant and equipment and company cars (PLN 18.3m as at the end of December 2013).

- 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 Parent's equity.

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12. Material transactions with related-parties

Pfleiderer Grajewo S.A. is a subsidiary of Pfleiderer Service GmbH; Atlantik S.A. of Luxembourg is the ultimate parent.

The Group's transactions with related-parties in the period January 1st–June 30th 2014 and January 1st–June 30th 2013:

Entity	Jan 1–Jun 30 2014			Jan 1–Jun 30 2013		
	Sale revenues	Other income	Purchases	Sales revenues	Finance costs	Purchases
Pfleiderer Service GmbH	0	0	49	0	754	1,271
Pfleiderer GmbH	0	0	2,674	2	0	2,508
Pfleiderer Holzwerkstoffe GmbH & Co.KG	1,830	145	10,857	2,052	0	6,486
Blitz 11-446 GmbH	0	0	0	0	0	0
Pfleiderer Neumarkt GmbH	13,262	0	0	19,777	0	0
Pfleiderer Leutkirch GmbH	2,089	0	91	235	0	0
Pfleiderer Gutersloh GmbH	8,584	0	424	15,017	0	1,410
Pfleiderer Industrie Limited	0	0	3	0	0	12
Pfleiderer BV	0	0	0	0	0	8
Jura Speditions GmbH	1	0	1,865	0	0	1,895
Pfleiderer Amsberg GmbH	84	0	14	909	0	0
Pfleiderer Baruth GmbH	23,912	0	0	28,261	0	0
Pfleiderer France S.A.S.	0	0	1	0	0	1
Total	49,762	145	15,978	66,253	754	13,591

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Related-party balances as at June 30th 2014 and December 31st 2013:

Entity	Jun 30 2014			Dec 31 2013		
	Trade receivables	Trade payables	Investment liabilities	Trade receivables	Trade payables	Investment liabilities
Pfleiderer Service GmbH	0	0	0	258	146	0
Pfleiderer GmbH	0	1,046	0	0	1,037	0
Pfleiderer Holzwerkstoffe GmbH & Co. KG	366	3,334	0	225	2,980	0
Pfleiderer Holzwerkstoffe Verwaltungs GmbH	0	0	0	0	0	0
Pfleiderer Neumarkt GmbH	8,383	0	0	8,751	831	0
Pfleiderer Leutkirch GmbH	1,318	91	0	599	14	0
Pfleiderer Gütersloh GmbH	5,543	58	0	6,659	101	0
Jura Speditions GmbH	1	484	0	0	675	0
Pfleiderer Amsberg GmbH	25	0	0	14	0	0
Pfleiderer Holzwerkstoffe Gschwend GmbH	0	0	499	0	0	498
Pfleiderer Baruth GmbH	15,863	0	0	18,173	0	0
Total	31,499	5,013	499	34,679	5,784	498
Discontinued operations						
Blitz	0	0	0	4,147	0	0
Total	31,499	5,013	499	38,826	5,784	498

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Remuneration of members of the Management and Supervisory Boards

Remuneration of members of the Parent's Management Board, including bonuses, paid and payable at Pfleiderer Grajewo S.A., and remuneration of members of the Parent's Supervisory Board:

	<u>Jan 1– Jun 30 2014</u>	<u>Jan 1– Jun 30 2013</u>
Remuneration of members of the Management Board	2,803	1,411
Remuneration of members of the Supervisory Board	313	312
	<u>3,116</u>	<u>1,723</u>

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

	<u>Jan 1– Jun 30 2014</u>	<u>Jan 1– Jun 30 2013</u>
Remuneration of members of the Management Board	1,301	1,411
	<u>1,301</u>	<u>1,411</u>

As at June 30th 2014, Mr Dariusz Tomaszewski, Management Board Member, had outstanding debt of PLN 26 thousand towards 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.

The number of shares in the Parent held by members of the Parent's Management and Supervisory Boards did not change since the issue date of the consolidated financial statements for the financial year ended December 31st 2013, and as at the issue date of these interim condensed financial statements the shareholdings were as follows:

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

The members of the Pfleiderer Grajewo's Supervisory Board did not hold any shares in the Parent.

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13. Other material information

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 was 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 on 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. On the part of 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 was 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, as appropriate, 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 on 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. On the part of 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 the decision to change factoring firms financing Pfleiderer Prospan S.A.'s trade receivables and does not entail any material financial consequences for Pfleiderer Prospan S.A.

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 of the precedent condition.

On February 28th 2014, Pfleiderer Prospan S.A. delivered to BZ WBK Faktor Sp. z o.o. a representation on termination and settlement of the factoring agreement between Pfleiderer Prospan S.A. and PEKAO Faktoring Sp. z o.o. of Lublin. By doing so, it fulfilled the condition precedent for the effectiveness of the factoring agreement of January 30th 2014 concluded between Pfleiderer

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Prospan S.A. and BZ WBK Faktor Sp. z o.o. of Warsaw.

14. Court proceedings

Other than the anti-trust proceedings described in Note 11.2 to these interim condensed consolidated financial statements, there were no court, arbitration or administrative proceedings pending with respect to any liabilities or claims of the Group companies, which value would represent 10% or more of the Parent's equity.

15. Events subsequent to the end of the reporting period

According to the information of August 14th 2014, Subsidiary Pfliederer 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. .

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16. Accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may, by definition, differ from the actual results.

The Group reviews its assets on a regular basis and, if necessary, recognises impairment losses, which are charged to profit or loss. The Group primarily recognises impairment losses on trade receivables and inventories of materials and finished goods. In addition, the Group regularly reviews useful economic lives and factors influencing the recoverable amount of its non-current assets. The amount of provisions for future obligations under retirement and disability entitlements is estimated using actuarial method on the basis of adopted assumptions.

In the period January 1st–June 30th 2014, there were no significant changes to the estimates and judgments relative to the most recent annual consolidated financial statements of the Group for the financial year ended December 31st 2013.

Wojciech Gątkiewicz

President of the Management Board

Rafał Karcz

Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski

Member of the Management Board, Sales Director

Ewa Stańska

Person responsible for the accounting records

Grajewo, August 25nd 2014