

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

**PFLEIDERER GRAJEWÓ S.A.
DIRECTORS' INTERIM REPORT
ON THE COMPANY'S OPERATIONS
FOR THE PERIOD JANUARY 1ST–
JUNE 30TH 2014**

PFLEIDERER GRAJEWO S.A.**Interim Directors' Report on the operations of Pfleiderer Grajewo S.A. 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	333,358	323,736	79,781	76,824
Operating profit	18,071	13,587	4,325	3,224
Profit before tax	50,196	104,474	12,013	24,792
Net profit	47,836	71,169	11,448	16,889
Net cash from operating activities	31,142	(39,068)	7,453	(9,271)
Net cash from investing activities	(40,424)	669,546	(9,675)	158,886
Net cash from financing activities	15,529	(581,272)	3,716	(137,938)
Total net cash flow	6,247	49,206	1,494	11,677
Basic earnings per share (PLN/EUR)	0.96	1.43	0.23	0.34
Diluted earnings per share (PLN/EUR)	0.96	1.43	0.23	0.34
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	1,102,221	1,080,579	264,900	260,556
Total liabilities	431,049	457,550	103,595	110,327
Non-current liabilities	8,900	6,520	2,139	1,572
Current liabilities	422,149	451,030	101,456	108,755
Total equity	671,172	623,029	161,305	150,229
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)	13.53	12.55	3.25	3.03
PLN/EUR exchange rate as at the reporting date			4.1609	4.1472

PFLEIDERER GRAJEWO S.A.

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

2. General information

Pfleiderer Grajewo S.A. (the "Company") is a listed joint-stock company registered in Poland.

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

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

The business of Pfleiderer Grajewo S.A. consists in 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.

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

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 Company's Supervisory Board was as follows:

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

3. Pfleiderer Grajewo S.A.'s shareholder structure

As at the date of this Directors' Report, the Company's shareholding structure was as follows:

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 Company's operations, the number of Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

The information on the number of Company shares held by Aviva OFE is sourced from the most recent notification of shareholding change, received by the Company on July 10th 2007. The information on the number of Company shares held by ING OFE is sourced from the most recent notification of shareholding change, received by the Company on June 5th 2009.

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

PFLEIDERER GRAJEWO S.A.

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

4. Company shares or entitlements to Company shares held by management and supervisory staff

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

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

As at June 30 2014 the members of the Supervisory Board did not hold any shares in the Company.

5. Information material to the assessment of the personnel, assets, financial standing and performance of the Company and their changes, and for the assessment of the Company's ability to fulfil its obligations

5.1. Financial standing of the Company

As at the reporting date, the structure of financing of the Company's assets was as follows:

<i>all amounts in PLN thousand</i>	Jun 30 2014	Dec 31 2013
Equity	671,172	623,029
Non-current liabilities	8,900	6,520
Long-term capital (total equity + non-current liabilities)	680,072	629,549
Current liabilities	422,149	451,030

In 1 HY 2014, the Company generated net profit of PLN 47,836 thousand. Pfleiderer Grajewo S.A. financed its day-to-day operations chiefly with its own funds and, to a certain extent, with bank borrowings and issues of short-term notes acquired by Pfleiderer Prospan S.A.

As at June 30th 2014, the Company's debt outstanding under short-term notes in issue was PLN 295,986 thousand, whereas debt under bank borrowings totalled PLN 42,431 thousand.

5.2. Revenue and profit

In the period January 1st–June 30th 2014, the Company's revenue was PLN 333,358 thousand and increased by PLN 9,622 thousand on a year-to-year basis.

PFLEIDERER GRAJEWÓ S.A.

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

The table below presents revenue by geographical region:

	Jan 1–Jun 30 2014	Jan 1–Jun 30 2013
Domestic sales	235,677	207,738
- revenue from sale of products	171,376	152,699
- revenue from sale of merchandise and materials	51,302	41,605
- revenue from rendering of services	12,999	13,434
Foreign sales	97,681	115,998
- revenue from sale of products	90,332	106,246
- revenue from sale of merchandise and materials	4,842	8,697
- revenue from rendering of services	2,507	1,055
Total:	333,358	323,736

The table below presents revenue by product group:

	Jan 1–Jun 30 2014	% share %	Jan 1–Jun 30 2013	% share %
Revenue from sales of products	261,707	78.51%	258,945	79.98%
<i>Chipboard</i>	233,386	70.01%	215,434	66.54%
<i>Finish foil (foil, edge banding, edge foil)</i>	28,321	8.50%	43,511	13.44%
Revenue from sale of merchandise and materials	56,145	16.84%	50,302	15.54%
<i>Materials</i>	50,080	15.02%	40,810	12.61%
<i>Merchandise</i>	6,065	1.82%	9,492	2.93%
Revenue from rendering of services	15,506	4.65%	14,489	4.48%
Total:	333,358	100.00%	323,736	100.00%

In the period January 1st–June 30th 2014, revenue from sale of products increased 1% year on year, revenue from sale of merchandise and materials rose 12% year on year, and revenue from rendering of services went up 7%.

Operating profit for the period January 1st–June 30th 2014 reached PLN 18,071 thousand, up 33% year on year.

The period's net profit amounted to PLN 47,836 thousand and was PLN 23,333 thousand lower than the net profit for the period January 1st–June 30th 2013. The decrease is attributable to the sale of shares in Russian companies. The result on the sale was recognised as financial income of the comparative period.

PFLEIDERER GRAJEWO S.A.

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

5.3. Workforce and remuneration

As at June 30th 2014, the Company employed 567 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board (as at December 31st 2013: 575).

Remuneration of members of the Pfleiderer Grajewo's Management and Supervisory Boards. (including bonuses) paid and payable for the periods January 1st–June 30th 2014 and January 1st–June 30th 2013 was as follows:

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

As at June 30th 2014 and December 31st 2013, members of the Management and Supervisory Boards of Pfleiderer Grajewo S.A. had no outstanding debt under loans from the Company.

6. Material related-party transactions

The tables below present information on transactions with related entities concluded as at June 30th 2014 and in the period January 1st – June 30th 2014 (all figures in PLN '000):

Related party	Loans advanced	Other receivables	Trade receivables
Pfleiderer Prospan S.A.	-	16,931	723
Pfleiderer MDF Sp. z o.o.	9,779	-	12,833
Silekol Sp. z o.o.	-	21,018	25
Jura Polska Sp. z o.o.	-	46	37
Total	9,779	37,995	13,618

Related party	Liabilities under debt securities	Trade payables
Pfleiderer Prospan S.A.	295,986	-
Pfleiderer MDF Sp. z o.o.	-	5,895
Silekol Sp. z o.o.	-	6,662
Jura Polska Sp. z o.o.	-	1,246
Pfleiderer GmbH	-	526
Pfleiderer Gütersloh GmbH	-	58
Pfleiderer Holzwerkstoffe Gschwend GmbH	-	499
Pfleiderer Holzwerkstoffe GmbH & Co. KG	-	1,138
Total	295,986	16,024

PFLEIDERER GRAJEWÓ S.A.

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

<u>Related party</u>	<u>Revenue</u>	<u>Finance income</u>
Pfleiderer Prospan S.A.	6,784	16,931
Pfleiderer MDF Sp. z o.o.	56,825	254
Silekol Sp. z o.o.	523	21,018
Jura Polska Sp. z o.o.	369	46
Pfleiderer Neumarkt GmbH	35	-
Grajewo OOO	2,076	-
Total	66,612	38,249

<u>Related party</u>	<u>Purchase of products, merchandise, materials and services</u>	<u>Finance costs</u>
Pfleiderer Service GmbH	49	-
Pfleiderer Prospan S.A.	3,878	3,679
Pfleiderer MDF Sp. z o.o.	28,776	-
Silekol Sp. z o.o.	35,400	-
Jura Polska Sp. z o.o.	10,792	-
Pfleiderer GmbH	1,639	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	1,443	-
Pfleiderer Gütersloh GmbH	424	-
Total	82,401	3,679

In the period from January 1st to June 30th 2014, the Company did not conclude any transactions with related entities other than on arm's length basis.

7. Financial instruments

7.1. Overview of financial instruments

a) Derivative instruments

As at June 30th 2014, the Company held ten open forwards totalling EUR 8,000 thousand. 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 Company 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 open forwards was PLN 307 thousand. In 1HY 2014, the result on settled forward contracts was PLN 779 thousand.

PFLEIDERER GRAJEWÓ S.A.

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

b) Short-term notes

The commercial paper programme, carried out pursuant to an agreement of July 22nd 2003 with PEKAO S.A., consists in issuance of short-term notes. The notes are issued in accordance with the Polish Bonds Act of June 29th 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. They are issued to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

The notes have maturities of up to one year and are acquired, through Bank PEKAO S.A., by Pfleiderer Prospan S.A., a subsidiary. The Company issues notes maturing in up to one year, which are acquired through Bank PEKAO S.A. by the Company's subsidiary, Pfleiderer Prospan S.A. The Bank's fee is the cost incurred by the Company in connection with the issue. The notes are a discount instrument – they are issued at a discount to their nominal value and repurchased by the issuer at nominal value.

As at June 30th 2014, Pfleiderer Grajewo S.A.'s debt under notes in issue was PLN 295,986 thousand. The interest's cost incurred by the Company to Pfleiderer Prospan S.A. in H1 2014 amounted to PLN 3,679 thousand.

c) Bank borrowings

On June 26th and 27th 2013, Pfleiderer Grajewo S.A. 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 thousand and ensures financial liquidity of the Company and its subsidiaries for the next five years.

- Credit facility agreement with Bank Millennium S.A.

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

At the same time, Pfleiderer Prospan S.A., the Company's subsidiary, entered into an overdraft facility agreement with Bank Millennium S.A., for up to PLN 10,000 thousand. Subsidiary Silekol Sp. z o.o. entered into an overdraft facility agreement with Bank Millennium S.A., for up to PLN 10,000 thousand. Total liabilities of all the three borrowers under the four credit facility agreements with Bank Millennium S.A. may not exceed PLN 100,000 thousand. The multi-purpose credit facility is to be repaid in full 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.

The four credit facilities are secured primarily with a mortgage on developed properties (cross-collateralised for the benefit of the other three banks), i.e. the Company's production plant in Grajewo and the Wieruszów production plant owned by Pfleiderer Prospan S.A., as well as with a pledge over the production plants' machinery. Additionally, both Pfleiderer Prospan S.A. and Silekol Sp. z o.o. issued guarantees of up to PLN 115,000 thousand for the liabilities of the Company under the credit facilities.

- Credit facility agreement with Alior Bank S.A.

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

PFLEIDERER GRAJEWO S.A.

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

Those two credit facilities are secured primarily with a mortgage on developed properties (cross-collateralised for the benefit of the other three banks), i.e. the Company's production plant in Grajewo and the Wieruszów production plant owned by Pfleiderer Prospan S.A., as well as with a pledge on the machinery of the Pfleiderer Prospan production plant. Additionally, both Pfleiderer Prospan S.A. and Silekol Sp. z o.o. issued guarantees of up to PLN 115,000 thousand for the liabilities of the Company under the credit facilities.

- Credit facility agreement with Bank Zachodni WBK S.A.

On June 26th 2013, the Company entered into a PLN 45,000 thousand multi-purpose credit facility agreement with Bank Zachodni WBK S.A. The credit facility, designed 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 Company 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 thousand (a joint overdraft limit for all three borrowers). The facility, designed 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 PLN 60,000 thousand.

The two credit facilities are secured primarily with a mortgage on developed properties (cross-collateralised for the benefit of the other three banks), i.e. the Company's production plant in Grajewo and the Wieruszów production plant owned by Pfleiderer Prospan S.A., as well as with a pledge over the machinery of the Company's production plant.

- Credit facility agreement with Bank Ochrony Środowiska S.A.

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

The credit facility is secured primarily with a mortgage on developed properties (cross-collateralised for the benefit of the other three banks), i.e. the Company's production plant in Grajewo and the Wieruszów production plant owned by Pfleiderer Prospan S.A., as well as with a pledge over the machinery of the Company's production plant.

d) Loans advanced

The Company is executing new investment projects through its subsidiaries. The projects are financed partly with credit facilities granted by banks directly to the subsidiaries and partly with loans advanced by Pfleiderer Grajewo S.A.

As at June 30th 2014, the Company disclosed receivables under a loan advanced to Pfleiderer MDF Sp. z o.o., a subsidiary. The table below presents detailed information on the loan advanced by the Company (all amounts in PLN thousand):

	Jan 1 2014	Loans advanced	Accrued interest	Repayment of principal	Repayment of interest	Jun 30 2014
Pfleiderer MDF Sp. z o.o.	9,525	0	254	0	0	9,779
Total:	9,525	0	254	0	0	9,779

Interest accrues monthly and is disclosed under finance income.

PFLEIDERER GRAJEWÓ S.A.

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

7.2. Financial risks related to the Company's operations

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

The Company 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 Company 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 Company'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. Pfleiderer Grajewo S.A. monitors its currency positions with a view to protecting cash flows. To manage the 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 Company against 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 Company does not require its customers to provide it with collateral on their assets. The credit risk related to trade receivables is limited by the Company's broad and diversified customer base. Moreover, the Company 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, approximately 90% of total trade receivables from non-related parties were covered with trade credit insurance. The insurance secures credit risk – if a customer fails to pay, the insurer covers the loss (the insurance deductible is 10%).

In the period from January 1st to June 30th 2014, the Company 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 Company's deductibles in relation to receivables insured, on the basis of a detailed analysis of the accounts receivable.

c) Interest rate risk

The Company has cash at banks, receivables under a loan granted, as well as liabilities under bank borrowings. Interest rate risk is connected with interest payments under instruments bearing interest at floating rates. As at the reporting date, the Company did not hedge against the interest rate risk.

d) Currency risk

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

PFLEIDERER GRAJEWO S.A.

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

e) Liquidity risk

The Company monitors its liquidity on an ongoing basis. Its liquidity ratios are currently as follows:

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	Current assets	Receivables + cash	Average trade and other receivables	Average trade and other payables	Average inventories
	Current Liabilities	Current liabilities	Revenue :180/:360	Revenue :180/:360	Revenue :180/:360
Jun 30 2014	0.40	0.26	31 days	52 days	34 days
Dec 31 2013	0.32	0.13	35 days	60 days	35 days

The Company 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.

8. Sureties granted and Company's assets used as security

8.1. Sureties granted

As at June 30th 2014, the Company had issued the following sureties:

- Surety of EUR 1,115 thousand (PLN 4,639 thousand) issued to Pfleiderer MDF Sp. z o.o. in connection with a credit facility given to Pfleiderer MDF Sp. z o.o. by PKO BP S.A. As at June 30th 2014, Pfleiderer MDF Sp. z o.o.'s liability under the facility was PLN 87,396 thousand. The surety expires on July 15th 2019.
- Surety of PLN 15,000 thousand issued to Pfleiderer Prospan S.A. and Silekol Sp. z o.o. in connection with a credit facility given to Pfleiderer Grajewo S.A. and its subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o., by BZ WBK S.A. As at June 30th 2014, the companies' liability under the facility was PLN 0. The surety expires on June 25th 2016.
- Surety of PLN 11,500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility given to Pfleiderer Prospan S.A. by Alior Bank S.A. As at June 30th 2014, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0. The surety expires on June 25th 2016.
- Surety of PLN 11,500 thousand issued to Silekol Sp. z o.o. in connection with a credit facility given to Silekol Sp. z o.o. by Alior Bank S.A. As at June 30th 2014, Silekol Sp. z o.o.'s liability under the facility was PLN 0. The surety expires on June 25th 2016.
- Surety of PLN 11,500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility given to Pfleiderer Prospan S.A. by Bank Millennium S.A. As at June 30th 2014, Pfleiderer Prospan S.A.'s liability under the facility was PLN 76 thousand. The surety expires on July 25th 2016.
- Surety of PLN 11,500 thousand issued to Silekol Sp. z o.o. in connection with a credit facility given to Silekol Sp. z o.o. by Bank Millennium S.A. As at June 30th 2014, Silekol Sp. z o.o.'s liability under the facility was PLN 0 thousand. The surety expires on July 25th 2016.

8.2. Security established over the Company's assets

Certain documents and agreements were signed in order to secure the banks' receivables under the credit facility agreements concluded on June 26th and 27th 2013 by the Company and its subsidiaries (Pfleiderer

PFLEIDERER GRAJEWÓ S.A.

Interim Directors' Report on the operations of Pflleiderer Grajewo S.A. in the period January 1st–June 30th 2014

Prospan S.A. and Silekol Sp. z o.o.). The documents and agreements concerned in particular security over the Company's assets. A detailed description is provided in section 7.1 c) of this report.

9. Court proceedings

On April 2nd 2012, Pflleiderer Grajewo S.A. (the parent) and Pflleiderer 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., Pflleiderer Grajewo S.A. and Pflleiderer Prospan S.A. acted in collusion to frustrate competition on the domestic chipboard and fibreboard markets.

During the proceedings, Pflleiderer Grajewo S.A. and Pflleiderer Prospan S.A. provided additional information required by the Office. At present, the Company'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.

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

The Company did not publish any forecasts for 2014. Given the current economic climate, the Company will also refrain from publishing its forecast for 2015 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

11. Factors with a bearing on the Company's performance in the next period

The increase in sales in the first half of 2014 bode well for the near-term future. 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 to 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.

PFLEIDERER GRAJEWÓ S.A.

**Interim Directors' Report on the operations of Pflleiderer Grajewo S.A. in the period
January 1st–June 30th 2014**

12. Events subsequent to the end of the reporting period

After the June 30, 2014, there were no material events that would require disclosure in this Interim Directors' Report on the operations of Pflleiderer Grajewo S.A.

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

Grajewo, August 25th 2014