POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2014

year

(prepared in accordance with Par. 82.1.3 of the Regulation of the Minister of Finance dated February 19th 2009 - Dz.U. No. 33, item 259)

for issuers from the manufacturing, construction, trade or services sectors

for the financial year 2014, covering the period from January 1st to December 31st 2014,

including consolidated financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: March 20th 2015

Pfleiderer Grajewo Spółka Akcyjna

(full name)

GRAJEWO	**wood products**
(abbreviated name)	(sector according to the Warsaw Stock Exchange's classification)
19-203	**Grajewo**
(postal code)	(city/town)
Wiórowa	**1**
(street)	(number)
0-86 272 96 00	**0-86 272 39 83**
(telephone number)	(fax number)
grajewo@pfleiderer.pl	www.pfleiderer.pl
(e-mail)	(web site)
719-10-00-479	**4500933817**
(NIP – Tax Identification Number)	(REGON – Industry Registration Number)

FINANCIAL HIGHLIGHTS	PLN '000 2014	PLN '000 2013	EUR '000 2014	EUR '000 2013
I. Sales revenue	1 522 819	1 462 139	363 502	347 219
II. Operating profit/(loss)	142 933	108 738	34 119	25 823
III. Profit/(loss) before tax	128 014	80 680	30 557	19 159
IV. Net profit	103 256	167 558	24 648	39 791
V. Net profit attributable to equity holders of the parent	103 256	152 541	24 648	36 224
VI. Net cash provided by (used in) operating activities	183 507	126 746	43 804	30 099
VII. Net cash provided by (used in) investing activities	-89 632	552 144	-21 395	131 119
VIII. Net cash provided by (used in) financing activities	-92 434	-679 958	-22 064	-161 472
IX. Total net cash flow	1 441	-1 068	344	-254
X. Total assets	1 216 993	1 118 793	285 525	269 771
XI. Liabilities	460 623	466 518	108 069	112 490
XII. Non-current liabilities	176 518	134 647	41 414	32 467
XIII. Current liabilities	284 105	331 871	66 655	80 023
XIV. Equity	756 370	652 275	177 456	157 281
XV. Share capital	16 376	16 376	3 842	3 949
XVI. Weighted average number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVII. Weighted average diluted number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVII. Earnings per ordinary share (PLN/EUR)	2,08	3,07	0,50	0,73
XIX. Diluted earnings per ordinary share (PLN/EUR)	2,08	3,07	0,50	0,73
XX. Book value per share (PLN/EUR)	15,24	13,14	3,58	3,17
XXI. Diluted book value per share (PLN/EUR)	15,24	13,14	3,58	3,17
XXII. Declared or paid dividend per share (PLN/EUR)	0,00	0,00	0,00	0,00

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First name and surname	Position	Signature
March 20th 2015	Michael Wolff	President of the Management Board	
March 20th 2015	Rafał Karcz	Member of the Management Board, Chief Financial Officer	
March 20th 2015	Gerd Schubert	Member of the Management Board, Chief Operating Officer	
March 20th 2015	Wojciech Gątkiewicz	Member of the Management Board, Chief Transformation Officer	
March 20th 2015	Dariusz Tomaszewski	Member of the Management Board, Sales Director	

SIGNATURE OD THE PERSON RESPONSIBLE FOR ACCOUNT KEEPING			
Date	First name and surname	Position	Signature
March 20th 2015	Ewa Stańska	Person responsible for the accounting records	

TRANSLATION

Pfleiderer Grajewo S.A. Group

Opinion and Report of the Independent Auditor Financial Year ended 31 December 2014

The opinion contains 2 pages
The supplementary report contains 11 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2014

KPMG Audyt
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odpowiedzialnością sp.k.
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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.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Pfleiderer Grajewo S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Pfleiderer Grajewo S.A. with its registered office in Grajewo, ul. Wiórowa 1 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Pfleiderer Grajewo S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act, we report that the accompanying report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original
....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner with power of attorney

18 March 2015

TRANSLATION

Pfleiderer Grajewo S.A. Group

Supplementary report on the audit of the consolidated financial statements Financial Year ended 31 December 2014

The supplementary report contains 11 pages
The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2014

Contents

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Pfleiderer Grajewo S.A. Group

1.1.2 Registered office of the Parent Company of the Group

ul. Wiórowa 1
19-203 Grajewo

1.1.3 Registration of the Parent Company in the register of entrepreneurs of the National Court Register

Registration court:	District Court in Białystok, XII Commercial Department of the National Court Register
Date:	9 May 2001
Registration number:	KRS 0000011422
Share capital as at the end of reporting period:	PLN 16,375,920.00

1.1.4 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2014, the Management Board of the Parent Company was comprised of the following members:

- Wojciech Gątkiewicz – President of the Management Board,
- Rafał Karcz – Member of the Management Board,
- Dariusz Tomaszewski – Member of the Management Board.

According to the resolution of the Supervisory Board dated 16 February 2015, Mr. Wojciech Gątkiewicz was recalled from the position of President of the Management Board, and appointed for the position of Member of the Management Board – Transformation Director.

According to the resolution of the Supervisory Board dated 16 February 2015, Mr. Michael Wolff was appointed to the position of President of the Management Board.

According to the resolution of the Supervisory Board dated 16 February 2015, Mr. Gerd Schubert was appointed to the position of Member of the Management Board – Operations Director.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2014, the following companies were consolidated by the Group:

Parent Company:

- Pfleiderer Grajewo S.A.

Subsidiaries consolidated on the full consolidation basis:

- Pfleiderer Prospan S.A.,
- Silekol Sp. z o.o.,
- Pfleiderer MDF Sp. z o.o.,
- Jura Polska Sp. z o.o.,
- Unifloor Sp. z o.o. in liquidation,
- Grajewo OOO.

Jointly controlled entities (equity accounted investees):

- Blitz 11-446 GmbH.

1.2.2 Entities excluded from consolidation

As at 31 December 2014, the following subsidiaries of the Group were not consolidated:

- Pfleiderer Services Sp. z o.o.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Monika Bartoszewicz
Registration number:	10268

1.3.2 Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2013 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 30 June 2014.

The consolidated financial statements were submitted to the Registry Court on 3 July 2014.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Pfleiderer Grajewo S.A. with its registered office in Grajewo, ul. Wiórowa 1 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements were audited in accordance with the contract dated 8 October 2014, concluded on the basis of the resolution of the General Meeting dated 23 June 2010 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), National Standards on Auditing issued by the National Council of Certified Auditors, and International Standards on Auditing.

We audited the consolidated financial statements at the Group entities during the period from 17 to 28 November 2014, from 19 to 30 January 2015 and additional procedures have been performed outside the Parent Company's head office in the period from 23 February to 13 March 2015.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2009 No. 77, item 649 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Pfleiderer Prospan S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., Warszawa	31 December 2014	Unmodified opinion
Silekol Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., Warszawa	31 December 2014	Unmodified opinion
Pfleiderer MDF Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., Warszawa	31 December 2014	Unmodified opinion
Jura Polska Sp. z o.o.	Not audited	31 December 2014	Not audited
Unifloor Sp. z o.o. in liquidation	Not audited	31 December 2014	Not audited
Grajewo OOO	Not audited	31 December 2014	Not audited

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
Assets				
Property, plant and equipment	679,019	55.8	623,837	55.8
Intangible assets	2,665	0.2	1,607	0.1
Goodwill	107,829	8.9	107,829	9.6
Investments in subsidiaries	52	-	52	-
Other long-term investments	5,075	0.4	18,738	1.7
Investment property	3,860	0.3	3,995	0.4
Deferred tax assets	17,390	1.4	14,652	1.3
Advances paid on fixed assets	4,787	0.4	5,578	0.5
Government grant receivables	69,336	5.7	14,627	1.3
Fair value of hedging instruments	626	0.1	-	-
Non-current assets	890,639	73.2	790,915	70.7
Inventories	181,016	14.9	177,692	15.9
Trade receivables and other	122,908	10.1	112,310	10.0
Income tax receivable	984	0.1	21,110	1.9
Cash and cash equivalents	18,512	1.5	16,450	1.5
Other short term financial assets	2,347	0.2	216	-
Fair value of hedging instruments	587	-	100	-
Current assets	326,354	26.8	327,878	29.3
TOTAL ASSETS	1,216,993	100.0	1,118,793	100.0

EQUITY AND LIABILITIES	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
Equity				
Share capital	16,376	1.4	16,376	1.5
Share premium	289,806	23.8	289,806	25.9
Reserve capital	293,812	24.1	207,809	18.6
Revaluation reserve	619	0.1	619	-
Cash flow hedge reserve	1,213	0.1	-	-
Foreign currency differences on translating foreign operation	(458)	-	(84)	-
Retained earnings	155,002	12.7	137,749	12.3
Total equity attributable to equity holders of the parent	756,370	62.2	652,275	58.3
Total equity	756,370	62.2	652,275	58.3
Liabilities				
Loans and borrowings	63,696	5.2	86,801	7.7
Employee related payables	10,986	0.9	8,020	0.7
Provisions	815	0.1	786	0.1
Deferred tax liabilities	13,674	1.1	9,700	0.9
Deferred income due from government grants	87,347	7.2	29,340	2.6
Non-current liabilities	176,518	14.5	134,647	12.0
Loans and borrowings	44,655	3.7	67,730	6.1
Income tax payable	5,320	0.4	500	-
Trade and other payables	206,289	16.9	240,260	21.5
Employee related payables	23,349	1.9	22,032	2.0
Deferred income due from government grants	4,492	0.4	1,349	0.1
Current liabilities	284,105	23.3	331,871	29.7
Total liabilities	460,623	37.8	466,518	41.7
TOTAL EQUITY AND LIABILITIES	1,216,993	100.0	1,118,793	100.0

2.1.2 Consolidated statement of comprehensive income

	1.01.2014 - 31.12.2014 PLN '000	% of total sales	1.01.2013 - 31.12.2013 PLN '000	% of total sales
CONTINUING OPERATIONS				
Revenue	1,522,819	100.0	1,462,139	100.0
Cost of sales	(1,220,172)	80.1	(1,200,057)	82.1
Profit on sales	302,647	19.9	262,082	17.9
Other operating income	13,004	0.8	8,802	0.6
Distribution expenses	(111,659)	7.3	(94,260)	6.4
General and administrative expenses	(55,401)	3.6	(64,157)	4.4
Other operating expenses	(5,658)	0.4	(3,728)	0.3
Results from operating activities	142,933	9.4	108,739	7.4
Financial income	1,414	0.1	3,479	0.2
Financial costs	(16,333)	1.1	(31,538)	2.1
Net financing costs	(14,919)	(1.0)	(28,059)	(1.9)
Profit before tax	128,014	8.4	80,680	5.5
Income tax expense	(24,758)	1.6	(10,639)	0.7
Net profit from continuing operations	103,256	6.8	70,041	4.8
DISCONTINUED OPERATIONS				
Profit from discontinued operations (net of income tax)	-	-	97,517	6.7
Profit for the period	103,256	6.8	167,558	11.5
OTHER COMPREHENSIVE INCOME				
Foreign currency differences on translating foreign operation	(374)	-	14,163	1.0
Cash flow hedge - effective portion of changes in fair value	1,213	-	-	-
Foreign exchange translation differences from net investment	-	-	3,829	0.2
Other comprehensive income for the period	*839*	-	*17,992*	*1.2*
Total comprehensive income for the period	*104,095*	6.8	*185,550*	12.7
Profit attributable to:				
Shareholders of the Company	-	-	15,017	1.0
Non controlling interests	103,256	6.8	152,541	10.5
Net profit	103,256	6.8	167,558	11.5
Total comprehensive income attributable to:				
Shareholders of the Company	104,095	6.8	170,578	11.7
Non controlling interests	-	-	14,972	1.0
Total comprehensive income for the period			185,550	12.7
Basic and diluted earnings per share (PLN)	2.08	-	3.07	-

2.2 Selected financial ratios

	2014	2013	2012(*)
1. Return on sales			
profit for the period from continuing operations x 100% / revenue	6.8%	4.8%	1.2%
2. Return on equity			
profit for the period x 100% / equity - profit for the period	15.8%	34.6%	6.6%
3. Debtors' days			
average trade receivables (gross) x 365 days / revenue	21 days	19 days	23 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	37.8%	41.7%	67.6%
5. Current ratio			
current assets / current liabilities	1.1	1.0	1.1

* - data restated

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Pfleiderer Grajewo S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in note 6 a) of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 6 e) of the notes to the consolidated financial statements.

3.5 Consolidation of equity

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Pfleiderer Grajewo S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original
....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner with power of attorney

18 March 2015

Letter of the President of the Board

Dear All,

The year 2014 was for Pfleiderer Grajewo a period of stable development. The growth dynamics of the furniture production in Poland were at a two-digit level compared to the previous year. The favourable development of the market resulted mostly from the demand growth on the domestic market as well as growing export to the Western Europe. Conversely, Eastern markets were placed on an opposite side as their unstable geopolitical situation reflected in reduced number of sales orders.

In 2014, an increase of sale revenues by 4% was recorded when compared to the previous year, which is mainly a result of volume growth and change in the product mix. The prices of basic raw materials used in the manufacturing process, i.e. wood and resin, remained relatively stable compared to the previous year, while the electricity and fuel costs decreased. The capacities of the key production lines were nearly fully utilised ensuring therefore optimum distribution of fixed costs. The above mentioned circumstances in conjunction with the implemented operational efficiency improvement programme, sales activities, as well as the cost discipline enabled to increase the sale profitability by 2pp.

The operating profit improved significantly, reaching nearly PLN 143 m in 2014, which constitutes an increase by PLN 34 m compared to the year 2013. This change is an effect of increased sales revenues, improved profitability and slower increase in distribution costs compared to the sales dynamics, which is, in total, an effect of successfully implemented operational efficiency improvement programme. Moreover, this growth stems from an increase in strategic marketing expenditures supporting the wholesale network.

The net profit for majority shareholders from continuing operations reached PLN 103 m, which constitutes an improvement of 87% over the previous year. This is an effect of both improved operational business results as well as reduced debt servicing costs.

The investment programme aimed at the plants' modernisation, adjusting the production potential to the market demand, improving cost efficiency totalled at PLN 114m and contributed to the improvement of the financial performance.

In January 2014, the parent entity Pfleiderer Grajewo SA finalised the purchase of minority share in its subsidiary, MDF Grajewo. Eventually, Pfleiderer Grajewo SA acquired 100% of shares in all the subsidiaries. In the same month a long-term contract securing the supply of urea – one of strategic raw materials was signed with one of the strategic suppliers.

In November, a permit for subsidiary, Pfleiderer MDF Sp. z o.o operations in Suwalki Special Economic Zone was prolonged until the end of 2026. The previous permit had been valid until October 2016.

In December a 2-year contract for the delivery of products to the strategic partner - FM Forte S.A. of an approximate value of PLN 306 m was signed.

The 2015 strategy of the Group is targeted at the initiation of a process of multi-layer integration of organisational structures within a Pfleiderer Group. The unification of the processes and activities will lead to increasing the market and cost competitiveness, exploring new market potentials, transferring the technology and releasing a number of synergies from common operations. A common HR development plan will be set up across the organisation.

Yours faithfully,

Michael Wolff
President of the Board

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THE PFLEIDERER GRAJEWO GROUP

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2014

CONTENTS

MANAGEMENT BOARD’S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: 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 full-year consolidated financial statements for the year ended December 31st 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 assets and financial results, and that the annual consolidated Directors’ Report on the Pfleiderer Grajewo Group’s operations gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

The Management Board of Pfleiderer Grajewo S.A. (the Parent) represents that the audit firm which audited the full-year consolidated financial statements was appointed in compliance with applicable laws, and that both the audit firm and the auditors who performed the audit meet the conditions required to issue an objective and independent opinion on the audited full-year consolidated financial statements, in accordance with the applicable laws and professional standards.

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Grajewo, March 18th 2015

(all amounts in PLN thousand)

Annual consolidated financial statements

Statement of comprehensive income

Continuing operations	Note	**Total Jan 1– Dec 31 2014**	**Total Jan 1– Dec 31 2013**
Revenue	1	1,522,819	1,462,139
Cost of sales	8	(1,220,172)	(1,200,057)
Gross profit		**302,647**	**262,082**
Other income	4	13,004	8,802
Distribution costs	8	(111,659)	(94,260)
Administrative expenses	8	(55,401)	(64,157)
Other expenses	5	(5,658)	(3,728)
Operating profit		**142,933**	**108,739**
Finance income		1,414	3,479
Finance costs		(16,333)	(31,538)
Net finance costs	7	**(14,919)**	**(28,059)**
Profit before tax		**128,014**	**80,680**
Income tax expense	9	(24,758)	(10,639)
Net profit from continuing operations		**103,256**	**70,041**
Discontinued operations			
Net profit from discontinued operations	18	0	97,517
Net profit for the reporting period		**103,256**	**167,558**
Attributable to non-controlling interests		0	15,017
Attributable to owners of the parent		103,256	152,541
Other items of comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations		(374)	14,163
Effective portion of gains on fair-value measurement of hedging instruments		1,213	0
Exchange differences on net investments in subsidiaries		0	3,829
Other items of comprehensive income		**839**	**17,992**
Comprehensive income for the period		**104,095**	**185,550**
Comprehensive income for the period attributable to:			
Owners of the parent		104,095	170,578
Non-controlling interests		0	14,972
Comprehensive income for the period		**104,095**	**185,550**
Basic earnings per share (PLN)	19	2.08	3.07
Diluted earnings per share (PLN)	19	2.08	3.07

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Statement of changes in equity

Financial year ended December 31st 2014

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Cash flow hedges	Retained earnings	Total
As at Jan 1 2014	**16,376**	**289,806**	**207,809**	**619**	**(84)**	**0**	**137,749**	**652,275**
Comprehensive income for the period								
Net profit	0	0	0	0	0	0	103,256	**103,256**
Other comprehensive income								
Exchange differences on translating foreign operations	0	0	0	0	(374)	0	0	**(374)**
Effective portion of gains on fair-value measurement of hedging instruments	0	0	0	0	0	1,213	0	**1,213**
Total other comprehensive income	0	0	0	0	(374)	1,213	0	**839**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**(374)**	**1,213**	**103,256**	**104,095**
Transactions with owners recognised in equity								
Transfer of part of 2013 net profit to statutory reserve funds	0	0	86,003	0	0	0	(86,003)	**0**
Transactions with owners recognised in equity	0	0	86,003	0	0	0	(86,003)	**0**
As at Dec 31 2014	**16,376**	**289,806**	**293,812**	**619**	**(458)**	**1,213**	**155,002**	**756,370**

Financial year ended December 31st 2013

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

	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**
Acquisition of non-controlling interests	0	0	0	0	0	0	(45,695)	**(45,695)**	(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	(57,698)	**(45,695)**	(72,745)	**(118,440)**
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)

Statement of financial position

	Note	Dec 31 2014	Dec 31 2013
Assets			
Property, plant and equipment	10	679,019	623,837
Intangible assets	11	2,665	1,607
Goodwill	3	107,829	107,829
Investments in jointly controlled entities		52	52
Other non-current financial assets	12	5,075	18,738
Investment property	13	3,860	3,995
Deferred tax asset	14	17,390	14,652
Prepayments for property, plant and equipment		4,787	5,578
Government grants receivable	15	69,336	14,627
Derivatives	25	626	0
Non-current assets		**890,639**	**790,915**
Inventories	16	181,016	177,692
Trade and other receivables	17	122,908	112,310
Income tax receivable		984	21,110
Cash and cash equivalents	30	18,512	16,450
Other current financial assets	12	2,347	216
Derivatives	25	587	100
Current assets		**326,354**	**327,878**
Total assets		**1,216,993**	**1,118,793**
Equity and liabilities			
Equity			
Share capital	19	16,376	16,376
Share premium	19	289,806	289,806
Statutory reserve funds	19	293,812	207,809
Revaluation reserve		619	619
Effective portion of gains on fair-value measurement of hedging instruments		1,213	0
Exchange differences on translating foreign operations		(458)	(84)
Retained earnings		155,002	137,749
Equity (attributable to owners of the parent)		**756,370**	**652,275**
Non-controlling interests		**0**	**0**
Total equity	19	**756,370**	**652,275**
Liabilities			
Borrowings and other debt instruments	21	63,696	86,801
Employee benefit obligations	22	10,986	8,020
Provisions	23	815	786
Deferred tax liabilities	14	13,674	9,700
Deferred income from government grants	15	87,347	29,340
Non-current liabilities		**176,518**	**134,647**
Borrowings and other debt instruments	21	44,655	67,730
Income tax payable		5,320	500
Trade and other payables	24	206,289	240,260
Employee benefit obligations	22	23,349	22,032
Deferred income from government grants	15	4,492	1,349
Current liabilities		**284,105**	**331,871**
Total liabilities		**460,623**	**466,518**
Total equity and liabilities		**1,216 993**	**1,118,793**

Statement of cash flows

(all amounts in PLN thousand)

	Note	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Net profit for the reporting year		**103,256**	**167,558**
Adjustments		90,979	(42,508)
Depreciation and amortisation	8	53,547	48,111
Foreign exchange gains		(1,278)	(1,605)
Interest for the period	7	14,871	26,495
Loss on investing activities		972	480
Income tax disclosed in profit or loss of the period	9	24,758	10,639
Deferred income tax recognised in equity		0	0
Net result from discontinued operations after tax		116	(97,517)
Increase in trade and other receivables		(4,901)	(15,581)
Increase in inventories		(3,324)	(11,839)
Increase /(decrease) in trade and other payables	30	2,299	(3 666)
Increase in employee benefit obligations		4,283	4,205
Increase in provisions		29	47
Amortisation of government grants	15	(1,512)	(1,162)
Result on forward contracts		1,183	2,521
Increase/(decrease) in exchange differences on translating foreign operations		(357)	(79)
Other adjustments		338	(3,557)
Cash flows from operating activities		**194,238**	**125 050**
Interest received		309	1,609
Income tax paid/received		(11 037)	87
Net cash from operating activities		**183,507**	**126,746**
Cash flows from investing activities			
Disposal of property, plant and equipment		549	329
Acquisition of intangible assets and property, plant and equipment		(109,676)	(66,440)
Income from disposal of discontinued operations	18	26,279	618,255
Loans advanced to other entities		(7,000)	0
Interest received		216	0
Net cash from investing activities		**(89,632)**	**552,144**
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		(46,800)	(589,466)
Increase in borrowings and other debt instruments		0	31,263
Acquisition of non-controlling interests		(30,341)	(93,123)
Interest paid		(15,293)	(28,632)
Net cash from financing activities		**(92,434)**	**(679,958)**
Increase/(decrease) in cash		1,441	(1,068)
Cash at beginning of the period		16,450	17,518
Cash at end of the period	30	**17,891**	**16,450**

(all amounts in PLN thousand)

Notes to the annual consolidated financial statements

1. General information

The parent entity of the Pfleiderer Grajewo Group (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 Group's Management Board received the decision of the District Court of Białystok on entering the Parent's new name, Pfleiderer Grajewo S.A., in the National Court Register.

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

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

These full-year consolidated financial statements of the Pfleiderer Grajewo Group for the period from January 1st to December 31st 2014 were approved for issue by the Parent Management Board on March 18th 2015.

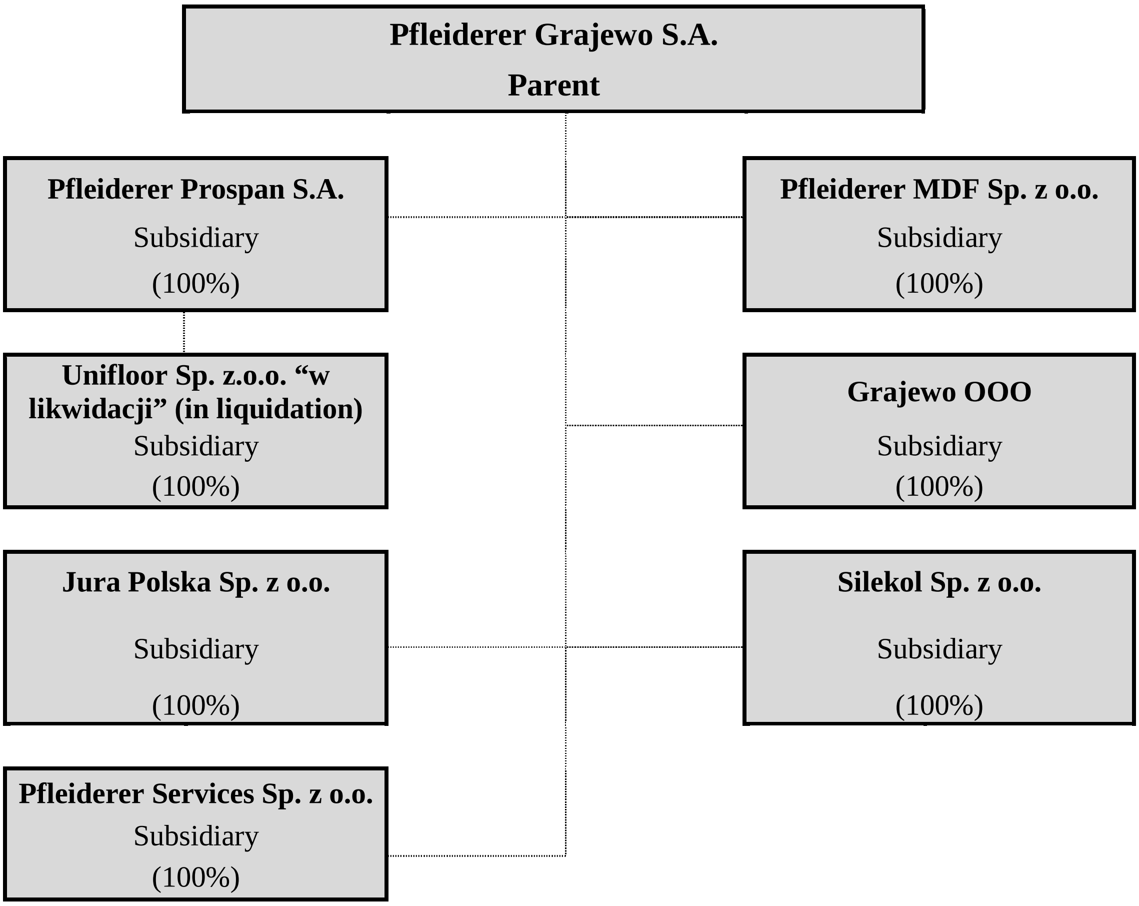
2. Structure of the Group

The Pfleiderer Grajewo Group consists of the parent, Pfleiderer Grajewo S.A., and its subsidiaries. In the period from January 1st to December 31st 2014, Pfleiderer Grajewo S.A. was the parent with respect to the following entities:

Consolidated subsidiaries:		Dec 31 2014	Dec 31 2013
1. Pfleiderer Prospan S.A.	Wieruszów	100%	100%
2. Silekol Sp. z o.o.	Kędzierzyn Koźle	100%	100%
3. Pfleiderer 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%
Equity-accounted jointly-controlled entities:			
7. Blitz 11-446 GmbH	Neumarkt	50%	50%
Entities which are not consolidated and are not equity-accounted:			
8. Pfleiderer Services Sp.	Grajewo	100%	100%

Re. 5 indirectly through Pfleiderer Prospan S.A.
Re. 6 purchase of shares on April 16th 2013.

Structure of the Group as at December 31st 2014:



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

As at December 31st 2014, Pfleiderer Grajewo S.A., the Parent, controlled the above entities as it had the power to govern their financial and operating policies by exercising the right to appoint and remove members of their management boards.

Changes in the Group’s structure in the reporting period

In the period from January 1st to December 31st 2014, the structure of the Group did not change relative to December 31st 2013.

Even though certain economic events took place in the current reporting period, they did not directly affect the Group’s structure and followed from the previously executed agreements.

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

Following the purchase of the shares from Pfleiderer Service GmbH, Pfleiderer Grajewo S.A. holds

(all amounts in PLN thousand)

100% of Pfleiderer MDF Sp. z o.o.’s share capital.

Pfleiderer Service GmbH is the parent of Pfleiderer Grajewo S.A.

List of companies of the Pfleiderer Grajewo Group, with brief description of principal business activity:

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

- 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, 20th Division of the National Court Register under entry No. KRS: 0000042082.

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

Principal business activity:

- 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 in the National Court Register by the District Court of Opole, 8th 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:	749-19-69-061
Registered address:	ul. Mostowa nr 30 K, 47-220 Kędzierzyn-Koźle, Poland

Principal business activity:

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, 12th 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:	719-13-99-317
Registered address:	ul. Wiórowa nr 1, 19-203 Grajewo, Poland

(all amounts in PLN thousand)

Principal business activity:

- 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

Principal business activity:

- transport,
- road transport of goods with specialised vehicles,
- road transport of goods with universal vehicles,
- lease of trucks,

Unifloor Sp. z o.o. (in liquidation) – entered in the National Court Register by the District Court of Białystok, Commercial Division of the National Court Register, under No. KRS 0000237233, on June 29th 2005.

Industry Identification Number (REGON):	200021250
Tax Identification Number (NIP):	719-149-38-49
Registered 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 in 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 Studenitzeskaya Street, Wielikij Novgorod, Russia

The company trades in Russia.

List of jointly-controlled entities:

(all amounts in PLN thousand)

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

Principal business activity:

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

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

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

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

During the 12 months ended 31 December 2014 there were no changes in the composition of the Management Board of the Parent. On 16 February 2015 the Supervisory Board of Pfleiderer Grajewo S.A.:

- elected Mr. Michael Wolff to the Management Board of the Company and entrusted him a function of President of Management Board;
- elected Mr. Gerd Schubert to the Management Board of the Company and entrusted him a function of Chief Operating Officer;
- recalled Mr. Wojciech Gątkiewicz from a function of President of Management Board and entrusted him a function of Member of Management Board - Chief Transformation Officer.

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

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

During the 12 months ended 31 December 2014 following changes in the composition of the Supervisory Board of the Parent took place:

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

On June 30th 2014, Mr Gerd Schubert was appointed Member of the Parent's Supervisory Board.

After 31 December 2014. following changes in the Composition of the Supervisory Board took place:

In accordance with a resolution of the Extraordinary General Meeting, dated 30 January 2015 Mr Michael Wolff was recalled from the position of Chairman of the Pfleiderer Grajewo Supervisory Board and Mr Gerd Schubert was recalled from the position of Member of the Pfleiderer Grajewo Supervisory Board.

On January 30th 2015 Mr Paolo G. Antonietti and Mr Michael F. Keppel were appointed to the Pfleiderer Grajewo Supervisory Board.

On February 16th 2015 the Supervisory Board appointed Mr Paolo G. Antonietti for a position of Chairman of Supervisory Board and Mr. Michael F. Keppel for a position of Vice Chairman of the Supervisory Board.

All duties and responsibilities of the audit committee were transferred to the Parent's Supervisory Board.

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

These full-year consolidated financial statements have been prepared for the year ended December 31st 2014, while the comparative financial data and notes relate to the year ended December 31st 2013.

These full-year consolidated financial statements for the year ended December 31st 2014 and the comparative data comprise the financial data of Pfleiderer Grajewo S.A., the Parent, and of its subsidiaries.

5. Basis of preparation

a) Statement of compliance

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

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

A number of new Standards, amendments to Standards and Interpretations not yet effective for annual periods ending on December 31st 2014 and have not been applied in the consolidated financial statements. The Group intends to apply them for the periods for which they are required to applied for the first time.

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

IFRIC Interpretation 21 Levies

Amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions

Improvements to IFRS (2010-2012)

Improvements to IFRS (2011-2013)

IFRS as adopted by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to standards and interpretations, which as of the date of publication of the financial statements have not been approved for use:

Standards and Interpretations adopted by the Board (IASB) and pending approval by the EU on 31 December 2014

IFRS 9 Financial Instruments (2014)

IFRS 14 Regulatory Deferral Accounts

IFRS 15 Revenue from Contracts with Customers

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)

Agriculture: Bearer Plants (Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture)

Equity Method in Separate Financial Statements (Amendments to IAS 27 Separate Financial Statements)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates)

Improvements to IFRS (2012-2014)

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures)

Disclosure initiative (Amendments to IAS 1 Presentation of Financial Statements)

According to the Group, abovementioned standards, interpretations and amendments to standards would not have a material impact on the consolidated financial statements, if they had been applied by the Group at the reporting date, with the exception of IFRS 9 "Financial Instruments", which could have a significant impact on the classification and valuation financial assets. Upon initial application, ie. January 1, 2017 year impact of the new IFRS 15 will depend on the specific facts and circumstances relating to contracts with customers, the Group is a party. The Group has not yet analyze the impact of the new standards on its financial position and results of operations

b) Basis of accounting

These full-year consolidated financial statements have been prepared in compliance with the historical cost convention, with the exception of financial derivatives and investment property which were measured at fair value.

c) Functional and presentation currency

All amounts disclosed in these full-year consolidated financial statements are expressed in the Polish zloty (PLN) and rounded to the nearest thousand, unless indicated otherwise.

The functional currency of the Parent is the Polish zloty (PLN).

d) Estimates and judgements

The preparation of financial statements in conformity 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 activities, operations and developments, the actual results may differ from projections (see Note 33).

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 the current and future periods if the estimate change relates to both the current and future periods.

6. Significant accounting policies

The Group's accounting policies have been applied consistently in all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(all amounts in PLN thousand)

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the parent.

Control is the power to govern, directly or indirectly, the financial and operating policies of a given entity in order to obtain benefits from its activities. The degree of control is assessed based on the existing and potential voting rights that are currently exercisable.

Financial statements of subsidiaries are consolidated from the date that control commences until to the date the control ceases.

(ii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, the retained interest is accounted for as an equity-accounted investee or available-for-sale financial asset depending on the level of influence retained.

(iii) Consolidation adjustments

Balances of intra-Group settlements among the Group's entities, transactions between the Group's entities and all related unrealised gains or losses, as well as the Group's income and expenses are eliminated while preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currencies

(i) Transactions in foreign currencies

Any transaction expressed in a foreign currency is translated to the respective functional currencies of Group entities at exchange rates effective as at the transaction dates.

Monetary assets and liabilities expressed in foreign currencies are translated as at the end of the reporting period at the exchange rate effective for a given currency as at that date.

Non-monetary assets and liabilities valued at historical cost in foreign currencies are translated at exchange rates effective as at the transaction date.

Foreign currency differences resulting from retranslation are recognised in profit or loss of the period except for foreign currency differences arising from retranslation of a qualifying cash-flow hedge to the extent the hedge is effective and foreign currency translation differences on net investments in subsidiaries.

Exchange rates used to translate items of the statement of financial position:

	Dec 31 2014	**Dec 31 2013**
EUR	4.2623	4.1472
USD	3.5072	3.0120
GBP	5.4648	4.9828
RUB	0.0602	0.0914
RON	0.9510	0.9262

Exchange rates used to translate items of the statement of comprehensive income:

	Dec 31 2014	**Dec 31 2013**
EUR	4.1893	4.2110
USD	3.1784	3.1653

GBP	5.2225	4.9528
RUB	0.0821	0.0990
RON	0.9440	0.9543

(ii) Translation of foreign operations

As at the end of the reporting period, assets and liabilities of foreign subsidiaries are translated into the Polish zloty at the exchange rate effective as at the reporting date. Income and expenses are translated at exchange rates effective as at the dates of the transactions. The resulting foreign currency differences are recognised in other comprehensive income and presented in equity as a separate item of foreign currency translation reserve. At the time of disposal of a foreign entity any accumulated currency-translation differences are transferred to profit or loss as part of the gain or loss on disposal.

(iii) Net investments in foreign operations

Foreign currency differences relating to monetary items receivable from or liabilities due to a foreign operation, whose settlement is neither planned nor probable in the foreseeable future, are considered to form part of net investments in foreign operations and are recognised in other comprehensive income and presented in equity as translation reserve.

c) Financial instruments

(i) Non-derivative financial instruments

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

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

The Group may transfer financial assets in a way that some of the assets will not be derecognised. If the Group transfers a financial asset in a way that it neither retains nor transfers substantially all risks and rewards of ownership but it retains control of the financial asset then the Group continues to recognise a financial asset to the extent of its continuing involvement in the asset. The extent of the entity's continuing involvement in the transferred asset is the extent to which the entity is exposed to the risk of changes in the value of the transferred asset.

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

Financial liabilities are derecognised from the statement of financial position if the Group's obligations specified in the contract expire or are discharged or cancelled.

Loans and receivables

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

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

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

Cash and cash equivalents comprise cash in hand and demand deposits at banks. Cash and cash equivalents reported in the statement of cash flows include the abovementioned cash and cash equivalents or cash and cash equivalents additionally reduced by outstanding bank overdrafts, which are an integral part of the Company's cash management.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value less any directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

The Group's financial liabilities measured at amortised cost comprise borrowings and other debt instruments as well as trade and other payables.

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

(ii) Derivative financial instruments

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

Initially, financial derivatives are recognised at fair value; any attributable transaction costs are recognised in profit or loss as incurred; thereafter they are measured at fair value. Gains and losses on measurement at fair value are recognised in profit or loss of the period. However, if financial derivatives are classified as hedging instruments, the recognition of gains or losses on remeasurement to fair value depends on the type of the item hedged with such derivatives.

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

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

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

Cash-flow hedges

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

If a hedging instrument no longer meets the criteria for hedge accounting, it expires or is sold, terminated or exercised, or its designation is changed, the Group ceases to apply hedge accounting prospectively. If the forecast transaction is not to be effected, the gains or losses previously recognised in the statement of comprehensive income are immediately recognised in profit or loss. Otherwise, amounts previously recognised in the statement of comprehensive income are recognised in profit or loss in the same period or periods in which the hedged transaction affects profit or loss.

d) Property, plant and equipment

(i) Owned property, plant and equipment

Property, plant and equipment are recognised at acquisition or production cost, less accumulated depreciation and any accumulated impairment losses.

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, less any deductible taxes: VAT and excise tax), public charges (in the case of imports), and costs directly related to the purchase and adaptation of the asset for use, including the cost of transport, loading, unloading and storage. Rebates, discounts and other similar reductions decrease the asset acquisition cost. The production cost of property, plant and equipment or a tangible asset under construction comprises all expenses incurred by a company to construct, install, adapt or improve such asset, including non-deductible VAT or excise tax, until the day on which the asset was available for use in a manner intended by the management. The production cost comprises also the estimated cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such obligation exists. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment or a tangible asset under construction. If a specific item of property, plant and equipment consists of separate and material components with different useful lives, such components are treated as separate items.

Gain or loss on disposal of an item of property, plant or equipment is estimated as a difference between the disposal proceeds and the carrying amount of the item, and is recognised in profit or loss.

(ii) Reclassification to investment property

When the designation of a property changes from owner-occupied to investment property, the property is measured at fair value and reclassified to investment property. Any gain on remeasurement is recognised in profit or loss, to the extent that it reverses a previous loss on impairment loss on the specific property. The remaining gains are recognised in other comprehensive income and presented in equity as revaluation reserve. Any losses are recognised as profit or loss.

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

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

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

Lease agreements under which the lessor retains substantially all risks and benefits resulting from the ownership of the leased asset are classified as operating leases. Property, plant and equipment used under operating lease agreements are not recognized in the statement of financial position.

(iv) Subsequent expenditure

The Group capitalises subsequent expenditure only when it is probable that the Group will obtain future economic benefits associated with the expenditure. Other expenditure is recognised in profit or loss as incurred. Repair and maintenance costs are expensed as incurred.

(v) Depreciation

Items of property, plant and equipment, or substantial and individual elements thereof, are depreciated over their useful economic lives using the straight-line method, taking into account the residual value. Leased assets are depreciated over the shorter of the lease term and their useful economic life unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

Buildings	25-40 years
Plant and equipment	2-25 years
Vehicles	5-8 years
Other tangible assets	4-8 years

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

e) Intangible assets

(i) Goodwill

Any business combination other than combination of companies under common control is accounted for with the acquisition method.
Goodwill is recognised on the date of obtaining the control as::

- the fair value of consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Following the initial recognition, goodwill is recognised at cost less any accumulated impairment losses.

(ii) Other intangible assets
Intangible assets with definite useful life acquired in a separate transaction have a definite period of use and are recognised at acquisition cost less accumulated amortisation charges and accumulated impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortisation

Intangible assets are amortised with the straight-line method over their useful economic lives, unless their useful economic lives are indefinite. Goodwill is not amortised; instead, it is tested for impairment at the end of each financial year or when the indication of possible impairment occurs . Other intangible assets are amortised from the date that they are available for use. The estimated useful economic lives of intangible assets are as follows:

Licences	2-3 years
Computer software	2 years

The correctness of the applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed as at the end of each reporting period and adjusted where appropriate.

f) Investment property

Investment property is held to earn rental income and/or for capital appreciation. Investment property is not held for sale as part of normal operations, nor is it used in the manufacturing process, supply of goods and services, or for administrative purposes. Investment property is initially measured at cost, and subsequently at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss.

g) Inventories

Inventories are recognised at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost to complete and estimated costs necessary to make the sale.
The cost of inventory is determined in the following manner:
Materials and merchandise – at acquisition cost; based on the weighted average method.

Finished goods and work in progress – cost of direct materials and labour and an appropriate portion of indirect production costs, calculated on the basis of normal production capacity; based on the weighted average method.

h) Impairment losses

(i) Non-derivative financial assets

An impairment loss on a non-derivative financial asset is recognised if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, which may have an adverse impact on future cash flows related to the financial asset and it may be estimated reliably.

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

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

Impairment losses are recognised in profit or loss.

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

(ii) Non-financial assets

The carrying amount of non-financial assets other than inventories, investment property and deferred tax asset are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment at year end.

The recoverable amount of assets of cash-generating units is higher of an asset's fair value less costs to sell and its value in use. Value in use is calculated by discounting present value of estimated future cash flows with a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets which do not generate independent cash flows, value in use is estimated for the assets' smallest identifiable cash-generating unit. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit recognised in the statement of financial position is higher than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets which generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Impairment losses are recognised in profit or loss. Impairment of a cash-generating unit is initially recognised as a decrease in goodwill allocated to that cash-generating unit (a group of cash-generating units), and subsequently as a decrease in the carrying amount of the other assets belonging to that cash-generating unit (a group of cash-generating units) recognised in the statement of financial position on a pro-rata basis.

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

i) Discontinued operations and disposal groups

Assets and liabilities representing a disposal group, which are expected to generate benefits through sale or distribution rather than through continued use, are classified by the Group as held for sale or distribution, provided that the assets are available for immediate sale in their present condition and the probability of such a transaction is high. Directly before reclassification as held for sale or distribution, the assets (or components of a disposal group) are remeasured in line with the Group's accounting policies. Subsequently, the assets or disposal groups are recognised at the lower of their carrying amount or fair value less cost to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and subsequently as a decrease in the carrying amount of other assets on a pro-rata basis, provided that the loss of goodwill does not affect the value of inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be recognised in accordance with the Group's accounting policies. Impairment on assets initially recognised as held for sale or distribution is charged to profit or loss for the period. This also applies to gains or losses resulting from subsequent change of value. Gains on fair value remeasurement are recognised only up to the amount of previously recognised impairment losses.

Intangible assets and property, plant and equipment classified as assets held for sale or distribution are not amortised or depreciated.

Discontinued operations are understood as Group's operations which were disposed of or classified as held for sale or distribution, constituting:

- a separate major line of business or geographical area of operations,
- a part of a single co-ordinated plan to dispose of a separate major line of business or a geographical area of operations,
- a subsidiary purchased solely for resale.

Operations are classified as discontinued operations following their disposal or once they meet the criteria to be classified as held for disposal. If the operations are classified as discontinued operations, the comparative data in the statement of comprehensive income is restated as if the discontinuation took place at the beginning of the comparative period.

j) Equity

(i) Ordinary shares

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

(ii) Dividends

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

(iii) Non-controlling interests

The Group presents non-controlling interests at their proportionate share of the acquiree's identifiable net assets.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

k) Employee benefits

(i) Defined contribution plan

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

(ii) Other non-current employee benefits - retirement bonuses

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

The Group's retirement bonus obligations are determined by estimating the amount of future remuneration of the employee at the time of the employee's retirement, and by estimating the amount of the future bonus. Retirement bonuses are discounted to present value. Retirement bonus obligations are recognised pro rata to the employee's expected length of service.

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

Any changes between the balance of employee benefit obligations as at the beginning and the end of a reporting period are recognised in profit or loss for the reporting period.

l) Provisions

Provisions are recognised when the Group has a liability (legal or constructive obligation) resulting from past events and when it is probable that a discharge of this liability would cause an outflow of economic benefits, and the amount of the liability may be reliably estimated. If the effect of time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to present value at pre-tax rates reflecting the current market estimates of the time value of money and risks, if any, related to a specific liability. If the discounting method is applied, an increase in provisions as a result of lapse of time is presented in finance costs.

m) Revenue

(i) Revenue from sales of finished goods/merchandise and services

Revenue from sales of finished goods/merchandise is recognised at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognised when significant risks and rewards incidental to the ownership of finished goods and merchandise have been transferred to the customer, and if the revenue amount may be reliably estimated. The revenue is not recognised if the future economic benefits, determination of the costs incurred, or the possibility of return of finished goods/merchandise is highly uncertain, or if the entity is involved in the management of the sold finished goods/merchandise on a continuing basis.

Revenue from provision of services includes mainly revenue from transportation services, which are recognised when a service is completed.

(ii) Government grants

A government grant is recognised in the statement of financial position only when there is reasonable assurance that the grant will be received and the Group will comply with any conditions attached to the grant. Grants received as compensation for costs already incurred are recognised as income on a systematic basis in the periods when the costs related to the grants are incurred. Grants received as compensation for costs of assets are recognised in profit or loss on a systematic basis as other income over the useful economic life of the asset.

In addition to monetary government grants, the Group also recognises government grants in the form of exemption from income tax as tax receivables and deferred income (government grant) related to subsidiary's activities in a Special Economic Zone. The government grant is in the form of exemption from income tax until the earlier of the two: use of the investment tax credit (maximum amount calculated on the basis of the regulations applicable to special economic zones) or expiry of the Special Economic Zone. In order to assess the amount of the government grant to be utilised in the following financial years, the Group estimated the total amount of the potential tax payable on the tax-exempt income generated by it from the business conducted in the Special Economic Zone based on the approved budgets for the following financial years. The Group amortises the government grants. For that purpose, the Group compiles a list of the property, plant and equipment (with the applied depreciation rates) where capital expenditure made on such assets in the particular years is taken into account in calculating the amount of the government grants in the period of conducting operations in the special economic zone. Based on the above data, the Group estimates the weighted average depreciation rate for the property, plant and equipment. In the following reporting periods the Group amortises the government grants recognised as deferred income using the weighted average depreciation rate calculated for the property, plant and equipment the acquisition of which served as the basis for establishing the amount of the government grants.

The Group also amortises government grant assets (tax receivable). The Group reduces the government grant asset by the amount of the government grant utilised in the reporting period, in correspondence with income tax expense (note 15).

n) Operating lease payments

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

o) Finance lease payments

Minimum lease payments made under finance leases are apportioned between finance costs and reduction of the outstanding liability. Finance costs are allocated to each reporting period as to obtain a constant periodic rate of interest on the remaining amount of the lease liability.

p) Net finance income and costs

Finance income includes interest income on funds invested by the Group, gains on hedging instruments that are recognised in profit or loss, foreign exchange gains (excluding gains from foreign exchange differences classified to other operating income) and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised in profit or loss on an accrual basis using the effective interest rate method.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on hedging instruments that are recognised in profit or loss, foreign exchange losses (excluding gains from foreign exchange differences classified to other operating income), and financial assets impairment (other than trade receivables), reclassification of net losses previously recognised in other comprehensive income. Interest expense that is not directly attributable to the acquisition, construction or production of a qualifying asset is recognised in profit or loss using the effective interest rate method.

Foreign exchange gains and losses are posted on a net basis as either finance income or finance costs.

q) Income tax expense

Corporate income tax recognised in profit or loss comprises current and deferred tax. Current and deferred income tax is recognised in profit or loss, unless it relates to business combination, items recognised directly in equity or as other comprehensive income.

The current tax is the expected tax payable or receivable for the year, determined using the tax rates applicable at the end of the reporting period, and including any adjustments of the tax due for the previous years.

The deferred income tax is determined in relation to all temporary differences existing as at the end of the reporting period between the tax value of assets and liabilities and their carrying amount recognised in the statement of financial position and disclosed in the consolidated financial statements.

Deferred tax asset is not recognised for:

- Temporary differences on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that the Group is able to control the timing of reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on initial recognition of goodwill (only deferred tax liability).

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

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

The measurement of deferred tax reflect the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

r) Earnings/(Loss) per share

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

s) Determination and presentation of operating segments

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

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

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

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

Supplementary notes to the Annual Consolidated Financial Statements

(all amounts in PLN thousand)

1. Operating segments

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

Operating segments	Companies included the segment	Principal business activity
Poland	Pfleiderer Grajewo S.A.	Production of chipboard
	Jura Sp. z o.o.	Transport services – mainly to companies of the Pfleiderer Grajewo Group
	Silekol Sp. z o.o.	Production of resins and adhesives – mainly for the Group's purposes
	Pfleiderer Prospan S.A.	Production of chipboard
	Unifloor Sp. z o.o.	w likwidacji (in liquidation)
	Pfleiderer MDF Sp. z o.o.	Production of thin MDF board
	Grajewo OOO	Trading activities in Russia

Information on geographical segments

Revenue by country of customer's registered office:

Country	Jan 1 – Dec 31 2014	Jan 1– Dec 31 2013
Poland	1,004,167	926,050
Germany	188,084	178,235
Lithuania	67,045	86,422
Russia	61,727	82,819
Sweden	41,062	36,608
Czech Republic	24,978	29,150
Latvia	16,074	14,299
Romania	14,997	8,061
Belarus	14,480	17,818
Ukraine	11,538	12,848
Netherlands	10,764	9,556
Slovakia	10,190	10,175
Denmark	7,109	6,863
Hungary	7,085	5,270
Kazakhstan	6,572	7,628
Finland	4,615	4,957
San Marino	4,512	1,237
Switzerland	4,467	0
Italy	3,960	3,520
Azerbaijan	2,984	5,258
Moldova	2,441	2,294
Estonia	1,760	1,351
Serbia	1,718	1,652
United Kingdom	1,619	795
Austria	1,294	852
Georgia	851	1,293
Republic of South Africa	327	1,396
Other countries < PLN 1m	6,399	5,732
Total	**1,522,819**	**1,462,139**

Products and Services

(all amounts in PLN thousand)

By product group	Jan 1– Dec 31 2014	% share	Jan 1– Dec 31 2013	% share
Revenue from sale of products:	**1,451,582**	**95.32%**	**1,392,914**	**95.27%**
Chipboards *(raw boards, melamine-faced boards, fibre mats, MFP)*	792,644	52.05%	762,830	52.17%
MDF boards, *(raw MDF, enamelled MDF, fibre mats)*	303,393	19.92%	261,298	17.87%
Glues *(basic resin, specialised resin, formalin)*	258,226	16.96%	238,514	16.31%
Other *(films, foils, edge banding, packaging, and other)*	97,319	6.39%	130,272	8.91%
Revenue from sale of materials	**7,017**	**0.46%**	**9,816**	**0.67%**
Revenue from sale of merchandise	**24,152**	**1.59%**	**24,083**	**1.65%**
Revenue from rendering of services	**40,068**	**2.63%**	**35,327**	**2.42%**
Total sales	**1,522,819**	**100.0%**	**1,462,139**	**100.0%**

Key customers

Given the nature of the Group's business and its sales structure, it is not possible to identify key customers. In the financial years ended December 31st 2014 and December 31st 2013, none of the customers accounted for more than 10% of the Group's total sales.

Segment information

Following the disposal in early 2013 of subsidiaries which met the geographical segment criterion (Russia), the Group identifies only one operational segment - Poland.

In these consolidated financial statements, subsidiary Grajewo OOO is presented in the 'Poland' geographical segment as it does not meet the quantitative criteria to qualify as a separate operational segment.

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

Reporting segment's revenue for the reporting and comparative periods

(all amounts in PLN thousand)

Operating segments

	Poland		Russia		Inter-segment eliminations				Total consolidated	
	Continuing operations		Discontinued operations		Inter-segment eliminations	Eliminations of discontinued operations	Inter-segment eliminations	Eliminations of discontinued operations		
	2014	**2013**	**2014**	**2013**	**2014**	**2014**	**2013**	**2013**	**2014**	**2013**
Segment's revenue from sales to third-party customers	1,522,819	1,465,551	0	18,357	0	0	0	(21,769)	1,522,819	1,462,139
Revenue from inter-segment transactions	0	0		3,412	0	0	(3,412)	0	0	0
Total revenue	1,522,819	1,465,551	0	21,769	0	0	(3,412)	(21,769)	1,522,819	1,462,139
Total costs***	(1,379,886)	(1,356,877)	0	(19,364)	0	0	3,477	19,364	(1,379,886)	(1,353,400)
Operating profit/(loss)	142,933	108,674	0	2,405	0	0	65	(2,405)	142,933	108,739
Finance net income/costs									(14,919)	(28,059)
Tax									(24,758)	(10,639)
Net profit/(loss)									**103,256**	**70,041**
Segment's assets	1,180,107	1,066,615	0	0	0	0	(34)	0	1,180,107	1,066,581
including: non-current assets	873,249	776,271	0	0	0	0	(9)	0	872,623	776,262
current assets	306,858	290,344	0	0	0	0	(25)	0	307,484	290,319
Unallocated assets *									36,886	52,212
Total assets									1,216,993	1,118,793
Segment's operating liabilities	333,278	301,788	0	0	0	0	0	0	333,278	301,788
Unallocated liabilities **									127,345	164,730
Capital expenditure										
property, plant and equipment	111,224	84,278	0	0	0	0	0	0	111,224	84,278
intangible assets	2,436	0	0	0	0	0	0	0	2,436	0
Depreciation and amortisation										
Depreciation of property, plant and equipment	(52,419)	(47,262)	0	0	0	0	0	0	(52,419)	(47,262)
Amortisation of intangible assets	(1,128)	(849)	0	0	0	0	0	0	(1,128)	(849)

* Unallocated assets include cash, income tax receivable and deferred tax assets.
** Unallocated liabilities include income tax payable, deferred tax liability, borrowings and other debt instruments.
*** Total costs include: cost of sales, distribution costs, administrative expenses, other operating income and expenses

(all amounts in PLN thousand)

2. Seasonality of operations

Sales of chipboard are subject to seasonal fluctuations, caused mainly by the seasonality of business in the construction sector. Typically, sales fall in the second quarter and peak in the second half of the calendar year.

3. Goodwill

Impairment test of cash generating unit containing goodwill

As at December 31st 2014, the Parent's Management Board estimated the recoverable amount of goodwill.

Goodwill was allocated to a cash-generating unit (Pfleiderer Prospan S.A.). Recoverable amount of the cash-generating unit was determined based on a calculation of its value in use, defined with respect to the operations of Pfleiderer Prospan S.A. The calculations take into account the cash flow projections adopted in the five-year financial budgets approved by the Management Board. Cash flows extending beyond the period of five years are extrapolated at a 2.5% growth rate. The key assumptions used to calculate the unit's value in use were as follows:

- terminal growth rate beyond the five-year period covered by the budget – 2.5%;
- discount rate – 8.8%.

The Management Board made budget assumptions for the impairment test based on past performance and on the Management Board's market development forecasts. The discount rate was applied to reflect the risks specific to a given operating segment. A rate of return on 10-year treasury bonds was assumed as the risk-free rate. The projected cash flows were derived from the budgets for the years until 2019 approved by the Management Board. Cash flows for further fourteen-year periods are determined by extrapolating the results for 2019 at a fixed growth rate of 2.5%. The test did not reveal any impairment of goodwill as at December 31st 2014.

Management did not identify any key assumptions, changes of which could cause the carrying amount become equal to the recoverable amount..

4. Other income

	Jan 1– Dec 31 2014	**Jan 1– Dec 31 2013**
Profit on sale of property, plant and equipment	259	0
Reversal of impairment loss on receivables	2,363	1,589
Compensations and penalties received	308	212
Release of unused accruals and deferred income	1,099	1,149
Government grants	1,512	1,154
Other income	7,463	4,698
Total	**13,004**	**8,802**

Other income (PLN 7,463 thousand) comprises revenue from sales of CO_2 emission rights of PLN 3,211 thousand, and foreign exchange gains of PLN 2,507 thousand.

Other income of PLN 4,698 thousand relate mainly to operating foreign exchange differences of PLN 2,395 thousand.

(all amounts in PLN thousand)

5. Other expenses

	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Loss on disposal of property, plant and equipment	1,051	175
Impairment loss on trade receivables	920	773
Receivables written-off	315	36
Damages paid	184	204
Recognition of accruals and deferred income	2,101	1,226
Other expenses	1,087	1,314
Total	**5,658**	**3,728**

6. Employee benefits expense

	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Salaries and wages payable	87,878	79,496
Employee benefits	22,904	21,118
Increase in retirement bonus obligations	3,220	963
Increase in obligations related to employee claims	29	47
Increase in unused holiday entitlement obligations	378	393
Change in bonus obligations	(681)	2,480
	113,728	**104,497**

(all amounts in PLN thousand)

7. Finance income and costs

Disclosed in profit or loss of the period:

	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Interest income	718	1,981
Net foreign exchange gains (financial portion)	11	0
Gains on forward contracts	685	1,498
Finance income	1,414	3,479
Interest expense	(15,360)	(28,476)
Losses on forward contracts	(493)	0
Net foreign exchange loss (financial portion)	0	(1,492)
Investment revaluation	(251)	(305)
Other finance costs	(229)	(1,265)
Finance costs	(16,333)	(31,538)
Net finance costs	**(14,919)**	**(28,059)**

Recognised in other comprehensive income

	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Exchange differences on net investments in subsidiaries	0	3,829
	0	**3,829**

8. Operating expense, by nature of expense

	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Raw materials and consumables	896,804	891,527
Depreciation and amortisation *)	53,547	44,204
Services	166,323	163,281
Taxes and charges	15,939	16,265
Employee benefits expense	113,728	104,497
Merchandise and materials sold	132,764	123,439
Other costs	18,840	18,186
Total costs	**1,397,945**	**1,361,399**
Change in inventories of finished goods and accruals and deferrals	(8,107)	(1,501)
Work performed by entity and capitalised to assets	(2,606)	(1,424)
Total operating expenses	**1,387,232**	**1,358,474**
Including		
Distribution costs	111,659	94,260
Administrative expenses	55,401	64,157
Cost of sales	**1,220,172**	**1,200,057**

**) Depreciation and amortisation in 2013 was reduced by PLN 3,909 thousand, i.e. the amount of the reversed provision for accumulated depreciation of tangible asset.*

(all amounts in PLN thousand)

9. Income tax expense

	Note	Jan 1– Dec 31 2014	Jan 1 – Dec 31 2013
Income tax expense			
Current portion of income tax			
		23,522	1,921
		23,522	1,921
Deferred income tax			
Relating to origination and reversal of temporary differences		(2,907)	(758)
Tax loss		4,143	9,476
	14	1,236	8,718
Tax expense recognised in the consolidated income statement		24,758	10,639

Reconciliation of income tax on profit before tax at the statutory tax rate to income tax calculated at the effective tax rate:

		Jan 1– Dec 31 2014		Jan 1 – Dec 31 2013
Profit before tax		**128,014**		**80,680**
Tax at domestic rate	19.00%	24,322	19.00%	15,329
Effect of foreign tax rates	0.00%	1	0.02%	14
Recognition of deferred tax assets/deferred tax liability not recognized in previous years	0.25%	323	(6.14%)	(4,956)
Coverage of accumulated loss generated outside the zone	0.00%	0	(0.05%)	43
Non-tax-deductible expenses – permanent differences	0.34%	430	0.44%	352
Non-taxable income – permanent differences	(0.25%)	(318)	0.18%	(143)
Effect on income tax	**0.34%**	**436**	**(5.83)**	**(4,690)**
Income tax at effective tax rate	19.34%	24,758	13.17%	10,639
Income tax disclosed in the consolidated income statement		**24,758**		**10,639**

(all amounts in PLN thousand)

10. Property, plant and equipment

	Land Buildings	Plant and equipment	Other	Tangible assets under construction	Total
Gross value					
As at Jan 1 2013	350,797	838,245	27,752	12,099	1,228,893
Increases	0	17,857	94	66,327	84,278
Decreases	425	5,842	1,533	0	7,800
Transfers	2,730	41,832	4,110	(48,910)	(238)
Reclassification of tangible assets	0	1,894	0	(1,894)	0
Effect of exchange differences on translating subsidiaries	1	0	(8)	0	(7)
As at Dec 31 2013	**353,103**	**893,986**	**30,415**	**27,622**	**1,305,126**
As at Jan 1 2014	353,103	893,986	30,415	27,622	1,305,126
Increases	0	0	0	113,660	113,660
Decreases	0	14,511	1,564	0	16,075
Transfers	11,428	93,066	8,699	(115,379)	(2,186)
Reclassification of tangible assets	0	(2,509)	0	0	(2,509)
Effect of exchange differences on translating subsidiaries	0	0	(29)	0	(29)
As at Dec 31 2014	**364,531**	**970,032**	**37,521**	**25,903**	**1,397,987**

(all amounts in PLN thousand)

	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
Accumulated depreciation and impairment losses					
As at Jan 1 2013	131,153	491,278	22,802	0	645,233
Depreciation	9,697	35,554	2,011	0	47,262
Decreases	248	5,546	1,502	0	7,296
Reversed provisions for accumulated depreciation of tangible assets	0	(3,909)	0	0	(3,909)
Effect of exchange differences on translating subsidiaries	0	0	(1)	0	(1)
As at Dec 31 2013	**140,602**	**517,377**	**23,310**	**0**	**681,289**
As at Jan 1 2014	140,602	517,377	23,310	0	681,289
Depreciation	9,891	39,495	3,033	0	52,419
Decreases	0	13,309	1,425	0	14,734
Effect of exchange differences on translating subsidiaries	0	0	(6)	0	(6)
As at Dec 31 2014	**150,493**	**543,563**	**24,912**	**0**	**718,968**
Net value					
As at Dec 31 2013	**212,501**	**376,609**	**7,105**	**27,622**	**623,837**
As at Dec 31 2014	**214,038**	**426,469**	**12,609**	**25,903**	**679,019**

As at 31 December 2014 the net value of fixed assets, which are used as security for bank loans and other borrowings amounted to PLN 353.588 thousand (Gross value of PLN 728.724 thousand).

Property, plant and equipment under finance lease

As at December 31st 2014 and December 31st 2013, the Group held no property, plant and equipment under finance lease agreements.

Tangible assets under construction

Investment projects

The Group continues a long-term investment programme designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity.

In 2014, the capital expenditure in 2014 was PLN 113,660 thousand.

Impairment of non-financial non-current assets

The Management Board tested non-current non-financial assets for impairment as at December 31st 2014. The analysis revealed no impairment indicators at the Parent and at the subsidiaries Pfleiderer Prospan S.A., Silekol Sp. z o.o., and Jura Sp. z o.o.

However, impairment indicators were identified at Pfleiderer MDF Sp. z o.o., and the Management Board carried out an impairment test of non-current assets as at December 31st 2014.

The recoverable amount of property, plant and equipment was determined based on the value in use. The calculations take into account the cash flow projections approved by the Management Board. Cash flows extending beyond the period of five years are extrapolated at a 2.5% growth rate. The rate does not exceed the long-term average growth rate for the manufacturing sector in Poland.

The key assumptions used in the impairment test of non-current assets as at December 31st 2014 to calculate the value in use were as follows:

- Terminal growth rate beyond the five-year period covered by the budget – 2.5%;
- discount rate – 8.8%.

The Management Board made budget assumptions for the impairment test based on past performance and on the Management Board's market development forecasts. The discount rate was applied to reflect the risks specific to a given operating segment. A 2.6% rate of return on 10-year treasury bonds was assumed as the risk-free rate. The projected cash flows were derived from the budgets for the years until 2019, approved by the Management Board. Cash flows for further sixteen-year period are determined by extrapolating the results for 2019 at a fixed growth rate of 2.5%.

The estimated recoverable amount exceeds the carrying amount of MPLN 32 (2013: MPLN 80).

The test did not reveal any impairment of non-current assets as at December 31st 2014.

Following the test for impairment of non-financial non-current asset, a sensitivity analysis of the test was performed to sanction the assumptions used for the test.

The sensitivity analysis revealed impairment potential if any of the assumptions listed below changes individually, provided that other assumptions remain unchanged:

- 8% EBITDA decrease
- PLN 30 m working capital increase in the subsequent years
- 1,35 pp discount rate increase

(all amounts in PLN thousand)

11. Intangible assets

Gross value	Licences, computer software and other
As at Jan 1 2013	24,558
Decreases	652
Transfers	238
As at Dec 31 2013	**24,144**
As at Jan 1 2014	24,144
Transfers	2,186
As at Dec 31 2014	**26,330**
Accumulated amortisation and impairment losses	
As at Jan 1 2013	22,340
Amortisation	849
Decreases	(652)
As at Dec 31 2013	**22,537**
As at Jan 1 2014	22,537
Amortisation	1,128
As at Dec 31 2014	**23,665**
Net value	
As at Dec 31 2013	**1,607**
As at Dec 31 2014	**2,665**

As at the end of the reporting period intangible assets were not used as security for bank loans and other borrowings.

12. Other financial assets

Other financial assets	Dec 31 2014	Dec 31 2013
Financial assets available for sale	**75**	**75**
shares in companies not listed on a regulated securities market	75	75
Other financial assets	**0**	**18,663**
Non-current receivables	0	18,663
	75	**18,738**

Other non-current financial assets of PLN 18,663 thousand disclosed in the comparative period comprise a part of receivables which, under executed agreements, was held in escrow account and represented deferred income from the sale of shares in Russian subsidiaries. As at December 31st 2014, the receivables are recognised as current and disclosed under trade and other receivables.

(all amounts in PLN thousand)

	Dec 31 2014	Dec 31 2013
Loans granted		
Long-term portion of loans	5,000	0
Current portion of loans	2,347	216
Total:	**7,347**	**216**

As at December 31st, 2014 the Group had receivables from loans granted to 3 Spare Sp. z o.o in the amount of PLN 7,347 thousand. The amount comprises loan of PLN 7,000 thousand and interest incurred for 2014 of PLN 347 thousand. In the statement of financial position the Group presents the amount of loans falling within 12 months from the reporting date in the amount of PLN 2,347 thousand as other current financial assets, while the remaining amount due in a period longer than 12 months in the amount of PLN 5,000 thousand is recognized as other non-current financial assets.

Interest on loans is accrued on a quarterly basis and classified as financial income. Loan granted to 3 Spare Sp. z o.o. is denominated in PLN and the interest rate is based on 1M WIBOR plus margin.

13. Investment property

As at December 31st 2014, the Group disclosed investment property of PLN 3,860 thousand (December 31st 2013: PLN 3,995 thousand).

The investment property includes land held in perpetual usufruct, located at ul. Bolesławiecka in Wieruszów, with a total area of 2,7835 ha, which as at December 31st 2014 was not used for production purposes, sale of goods, rendering of services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

Until November 22nd 2010, the land had been classified as farmland, and as the S-8 express way has been built in the direct vicinity of the property, the Group's Management Board treats the property as a potential source of future rental income and expects a considerable capital appreciation of the property. For this reason, in Q4 2010 a procedure was initiated to change the property’s status from agricultural zone land to construction zone land. On November 22nd 2010, the Group received a zoning permit from the Mayor of Wieruszów to construct on the land a commercial property, with a maximum building footprint area of 2,500 square metres.

As at December 31st 2014, a qualified property appraiser engaged by the Group estimated the fair value of the land, which is carried as investment property, at PLN 3,860 thousand (fair value – level 2). The Group charged the cost of change in the fair value of the investment property, in the amount of PLN 135 thousand, to profit or loss for the reporting period.

As at the end of the reporting period, the investment property was not used as security for bank loans or other borrowings.

(all amounts in PLN thousand)

14. Deferred income tax asset and liability

	Assets	Liabilities	Net	Assets	Liabilities	Net
	Dec 31 2014	Dec 31 2014	Dec 31 2014	Dec 31 2013	Dec 31 2013	Dec 31 2013
Non-current assets						
Property, plant and equipment	18,158	19,115	(957)	15,470	17,762	(2,292)
Investment property		513	(513)	0	539	(539)
Loans advanced	0	7	(7)	0	0	0
Other non-current financial assets	4	0	4	4	3,546	(3,542)
Current assets						
Inventories	1,682	0	1,682	1,323	0	1,323
Other current financial assets	0	158	(158)	0	73	(73)
Trade and other receivables	1,315	4,168	(2,853)	1,522	1,944	(422)
Cash	84	0	84	2	0	2
Derivatives	0	0	0	0	19	(19)
Non-current liabilities						
Provisions	155	0	155	149	0	149
Employee benefit obligations	1,890	0	1,890	1,353	0	1,353
Current liabilities						
Trade and other payables	2,185	191	1,994	2,553	82	2,471
Provisions	0	0	0	15	0	15
Employee benefit obligations	2,395	0	2,395	2,383	0	2,383
Total tax loss brought forward	0	0	0	4,143	0	4,143
Deferred income tax asset/liability	27,868	24,152	3,716	28,917	23,965	4,952
Deferred income tax asset and liability offset	(10,478)	(10,478)		(14,265)	(14,265)	
Deferred income tax asset/liability in the statement of financial position	**17,390**	**13,674**		**14,652**	**9,700**	

(all amounts in PLN thousand)

Changes related to temporary differences during the reporting period:

	As at Jan 1 2013	Recognised in profit or loss	Recognised in equity	As at Dec 31 2013	As at Jan 1 2014	Recognised in profit or loss	Recognised in equity	As at Dec 31 2014
Non-current assets								
Property, plant and equipment	(8,851)	6,559	0	(2,292)	(2,292)	1,335	0	(957)
Investment property	(597)	58	0	(539)	(539)	26	0	(513)
Loans advanced	(1)	1	0	0	0	(7)	0	(7)
Other non-current financial assets	4	(3,546)	0	(3,542)	(3,542)	3,546	0	4
Current assets								
Inventories	1,690	(495)	128	1,323	1,323	359	0	1,682
Other current financial assets	(93)	20	0	(73)	(73)	(85)	0	(158)
Trade and other receivables	3,507	(3,929)	0	(422)	(422)	(2,431)	0	(2,853)
Cash and cash equivalents	(17)	19	0	2	2	82	0	84
Investments in related entities	(14,034)	14,034	0	0	0	0	0	0
Derivatives	0	(19)	0	(19)	(19)	19	0	0
Non-current liabilities								
Liabilities under bank borrowings and other debt instruments	1,025	(1,025)	0	0	0	0	0	0
Provisions	140	9	0	149	149	6	0	155
Employee benefit obligations	1,205	148	0	1,353	1,353	537	0	1,890
Current liabilities								
Liabilities under bank borrowings and other debt instruments	(181)	181	0	0	0	0	0	0
Trade and other payables	2,554	(83)	0	2,471	2,471	(477)	0	1,994
Provisions	179	(164)	0	15	15	(15)	0	0
Employee benefit obligations	1,822	561	0	2,383	2,383	12	0	2,395
Total tax loss brought forward	13,716	(9,573)	0	4,143	4,143	(4,143)	0	0
	2,068	**2,756**	**128**	**4,952**	**4,952**	**(1,236)**	**0**	**3,716**
Income tax attributable to discontinued operations		**(11,474)**				**0**		
Total income tax as disclosed in the statement of comprehensive income		**(8,718)**				**(1,236)**		

15. Government grants receivable and deferred income under government grants

Government grants receivable includes economic assistance received under the following titles:

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

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

   The amount of PLN 849 thousand was released to other income over the period of two years starting on January 1st 2007.

2) On November 10th 2005, Pfleiderer MDF Sp. z o.o. received a permit to conduct business activities in the Suwałki Special Economic Zone (“SSSE”), thus becoming eligible to receive additional public assistance in the form of a corporate income tax exemption, provided that the company satisfies certain conditions (which are discussed below).

   Under the permit to conduct business activities in the Suwałki Special Economic Zone the company is eligible to receive public assistance. A corporate income tax exemption is a form of public assistance. The permit is valid until September 1st 2016, provided that the company meets certain conditions.

   In its decision of November 7th 2014, the Minister of Economy deemed Pfleiderer MDF Sp. z o.o.'s permit to conduct business activities in the SSSE invalid in the part pertaining to the term of the permit, and determined that the permit will expire on the date on which the SSSE is to discontinue its operations (currently December 31st 2026). The permit's conditions include the requirement to incur capital expenditure of at least EUR 78m by December 31st 2009, to employ at least 120 people by January 1st 2010, to maintain the headcount until December 31st 2014, and to satisfy other requirements imposed by the laws governing the SSSE. As at the end of the reporting period, the company met all the requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditure of up to EUR 50m, 50% of half of the amount of expenditure in excess of EUR 50m and up to EUR 100m, and 34% of half of the amount of expenditure in excess of EUR 100m.

   In connection with the foregoing, the Group recognised government grant assets and liabilities (current and non-current) as government grant receivables and deferred income under government grants. The Group reduces its government grant receivables by the value of the government grants used in the form of the corporate income tax exemption. In 2014, the Group used PLN 7,953 thousand of government grants.

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

(all amounts in PLN thousand)

The table below presents the structure of the deferred income under government grants and the amounts released to other income in 2013 and 2014.

Type of public assistance	**Investment grant**	**Corporate income tax exemption**	**Total**
As at Jan 1 2013	16,331	12,050	28,381
Amortisation of government grants	(826)	(328)	(1,154)
Reassessment of government grants	0	3,462	3,462
As at Dec 31 2013	**15,505**	**15,184**	**30,689**
As at Jan 1 2014	15,505	15,184	30,689
Amortisation of government grants	(822)	(690)	(1,512)
Reassessment of government grants	0	62,662	62,662
As at Dec 31 2014	**14,683**	**77,156**	**91,839**
Non-current portion	13,866	73,481	87,347
Current portion	817	3,675	4,492
Total	**14,683**	**77,156**	**91,839**

As at December 31st 2014, the Group reduced the carrying amount of government grant in the form of corporate income tax exemption. The value of government grant assets and liabilities increased by PLN 62,662 thousand, which resulted from a change in the estimated corporate income tax which will not be paid due to the exemption for the period of the company's operations in the Suwałki Special Economic Zone. The amount was estimated based on the updated budget projections for the period of 5 years, approved by the Management Board. The Management Board made certain budget assumptions, which serve as a basis for the estimation of the government grants amount based on historical results and the expected market development. The rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. As required by IFRS adopted by EU, the estimated amount of government grant is not discounted. Further, the carrying amount of government grant asset was reduced by PLN 7,953 thousand, that is the amount of unpaid corporate income tax related to the Group's operations in the Suwałki Special Economic Zone in 2014.

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

	Dec 31 2014	**Dec 31 2013**
Corporate income tax exemption	69,336	14,627
Total	**69,336**	**14,627**
Non-current portion	69,336	14,627
	69,336	**14,627**

(all amounts in PLN thousand)

16. Inventories

	Dec 31 2014	Dec 31 2013
Materials and merchandise	106,437	101,600
Semi-finished products and work in progress	142	92
Finished goods	74,104	67,151
Advances for deliveries	333	8,849
Total	**181,016**	**177,692**

Inventories are disclosed in the statement of financial position at net realisable value, i.e. net of write-downs of PLN 8,938 thousand (December 31st 2013: PLN 6,961 thousand).

As at the end of the reporting period, inventory was not used as a security for bank loans and other borrowings.

17. Trade and other receivables

	Dec 31 2014	Dec 31 2013
Trade receivables	41,719	40,558
Trade receivables from related parties	36,724	38,826
Current prepayments and accrued income	6,418	7,025
Current VAT receivables	16,422	15,114
Other receivables	21,625	10,787
Total	**122,908**	**112,310**

Other receivables, in amount of PLN 21,625 thousand, include in particular receivables which are, under executed agreements, blocked in the bank accounts and relate to receivables from sale of shares in the Russian subsidiaries. The value of these receivables as at 31 December 2014 is PLN 19,180 thousand. As at 31 December 2013 Receivables blocked on this account amounted to PLN 26,956 thousand. The amount of PLN 18,662 thousand was presented as a long-term asset and the remaining part in the amount of PLN 8,294 thousand as a short-term receivables in the statement of financial position.

As at December 31st 2014, trade receivables were reduced by impairment losses of PLN 9,259 thousand (December 31st 2013: PLN 10,647 thousand).

Trade and other receivables include the following financial receivables:

	Note	Dec 31 2014	Dec 31 2013
Trade receivables		41,719	40,558
Trade receivables from related parties		36,724	38,826
Other receivables		21,625	10,787
Total	**25**	**100,068**	**90,171**

Factoring of receivables

As at December 31st 2014, the Parent and its subsidiaries: Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o., Silekol Sp. z o.o. were parties of factoring agreements. Typically, the Group enters into factoring agreements of up to one year.

The existing factoring agreements are capped non-recourse facilities. The factoring agreements with BZ WBK Faktor Sp. z o.o. were concluded for an indefinite period, while the term of the agreements with PEKAO Factoring Sp. z o.o. is definite. The agreements are automatically rolled by another 12 months if neither party notifies the other party of its intention not to extend an agreement, provided that such notice will be sent no later than two months before the expiry of a given agreement.

(all amounts in PLN thousand)

As at December 31st 2014, the terms of and credit limits under the agreements were as follows:

Factoree:	Expiry date:	Factor:	Limit:
Pfleiderer Grajewo S.A.	March 31st 2015	PEKAO Factoring Sp. z o.o.	PLN 100,000 thousand
Pfleiderer MDF Sp. z o.o.	February 28th 2015	PEKAO Factoring Sp. z o.o.	PLN 50,000 thousand
Pfleiderer Prospan S.A.	indefinite term	BZ WBK Faktor Sp. z o.o.	PLN 80,000 thousand
Silekol Sp. z o.o.	indefinite term	BZ WBK Faktor Sp. z o.o.	PLN 15,000 thousand

Under the factoring agreements, the factors finance 90% or 100% of the receivables' nominal value, and the cost of financing (WIBOR or EURIBOR + margin) is paid by the Group. If the debtors fail to pay their liabilities, the factor has a claim towards the insurer under the insurance agreement with respect to 90% of the value of the receivables, and the remaining 10% of the receivables is covered by the Group.

As the Group’s exposure equals to 10% of the receivables sold to the factor, that portion of the receivables and the related liabilities continue to be recognised in the Group’s financial statements. The remainder of the receivables (90%) were derecognised from the Group’s statement of financial position.

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

	Dec 31 2014	**Dec 31 2013**
Total trade receivables	215,191	220,212
Receivables derecognised from the statement of financial position	(136,748)	(140,828)
Net trade receivables	**78,443**	**79,384**

	Dec 31 2014	**Dec 31 2013**
Factoring receivables as at the end of the reporting period	180,638	182,157
Payments made by customers, not submitted to the factor	28,692	25,607
Balance after payments, including:	151,946	156,550
Derecognised receivables (90%)	136,751	140,828
Receivables recognised in the statement of financial position up to the commitment amount (10%)	**15,195**	**15,722**

Settlement of factoring services	**Dec 31 2014**	**Dec 31 2013**
Factoring receivables as at the end of the reporting period	180,638	182,157
Other settlements with the factor – cash in transit	(297)	298
Payments received	(137,530)	(144,993)
Factoring liabilities as at the end of the reporting period	**42,811**	**37,462**

18. Discontinued operations and assets held for sale

On October 19th 2012 the Parent (as the seller) and Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V. (as the buyers) entered into a conditional agreement for sale of a 100% interest in Pfleiderer OOO of Russia as well as the assets belonging to Pfleiderer MDF

(all amounts in PLN thousand)

OOO, its subsidiary in Russia, and joint venture Blitz 11-446 GmbH in Germany. On January 23rd 2013, the parties signed the final agreement on the sale of shares and assets of the subsidiaries and assets of the joint venture. In addition, following the conclusion of an agreement dated December 30th 2013, the Group sold its shares in associate, Pfleiderer MDF OOO.

Net assets at Jan 23 2013	
Property, plant and equipment	(571,534)
Inventories	(47,881)
Trade receivables	(50,818)
Cash and cash equivalents	(5,376)
	(675,609)
Deferred tax liabilities	1,654
Borrowings and other debt instruments	57,167
Trade and other payables	72,172
Net assets attributable to discontinued operations	**(544,616)**
Other items recognised in profit/(loss) on the transaction:	
Transaction costs	(30,087)
Exchange differences on translating foreign operations	(11,779)
Exchange differences on net investments in subsidiaries	(3,829)
Non-controlling interests	(5,004)
Other (including foreign exchange differences)	6,163
Income tax expense	(38,288)
Adjusted net assets attributable to discontinued operations	**(627,440)**
Income from disposal of asset and liabilities to discounted operations, received in cash (a)	691,857
Income from asset disposal held in blocked account and other income not received as at Dec 31 2013 (b)	34,418
Current income tax on discontinued operations (c)	(68,226)
Cash from discontinued operations (d)	(5,376)
Net cash flows (a+c+d)	**618,255**
Income (a+b)	**726,275**

(all amounts in PLN thousand)

Cash flows from discontinued operations

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Net cash from operating activities	0	(4,380)
Net cash from investing activities	26,279	618,255
Net cash from financing activities	0	0
Net cash for the period	**26,279**	**613,875**

Net profit from discontinued operations

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Revenue	0	21,769
Expenses	0	(19,364)
Operating profit	**0**	**2,405**
Net finance costs	0	(2,983)
Profit before tax	0	(578)
Tax	0	(740)
Profit from discontinued operations after tax	**0**	**(1,318)**
Gain on disposal of discontinued operations	0	137,123
Tax on gain on disposal of discontinued operations	0	(38,288)
Net profit from discontinued operations	**0**	**97,517**
Basic earnings per share	**0**	**1.97**
Diluted earnings per share	**0**	**1.97**

The net profit from discontinued operations, of PLN 97,517 thousand, is wholly attributable to owners of the parent. The net profit from continuing operations, of PLN 70,041 thousand, includes PLN 55,024 thousand attributable to owners of the parent.

(all amounts in PLN thousand)

19. Equity

	Dec 31 2014	Dec 31 2013
Par value of share capital	16,376	16,376
Number of ordinary shares	49,624,000	49,624,000
Par value per share (PLN)	0.33	0.33
Earnings per share attributable to owners of the parent	2.08	3.07

All shares issued by the Group are ordinary shares. Holders of ordinary shares are entitled to receive approved dividends, and one vote per share held at the Parent 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 Pfleiderer Service GmbH, which holds 65.11% of the shares in Pfleiderer Grajewo S.A. In the period from January 1st to December 31st 2014, the number of the Company shares held by its shareholder, Pfleiderer Service GmbH, did not change. The ultimate shareholder of Pfleiderer Grajewo S.A. is an investment fund, Atlantic S.A. located in Luxembourg..

19.1. Share capital

The share capital is made up of 49,624,000 ordinary shares with a par value of PLN 0.33 per share. As at December 31st 2014, all shares were paid up. Shareholders have the right to dividend. and and are entitled to one vote per share held at the General Meeting..

In the period from January 1st to December 31st 2014, there were no changes in the share capital.

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

19.2. Share premium

Share premium is created from the excess of proceeds from issuance of shares above their par value. In 2014, there were no changes in share premium.

19.3. Statutory reserve funds

Statutory reserve funds are created with distributions from net profit (i.e. at least 8% of net profit until statutory reserve funds reach one-third of the share capital) and other arising from profits distribution.

In 2014, the Group transferred PLN 86,003 thousand from its 2013 net profit to statutory reserve funds.

19.4. Revaluation reserve

Revaluation reserve includes the effects of the fair value measurement of land held in perpetual usufruct by a subsidiary Pfleiderer Prospan S.A.

Until November 22nd 2010, the land was classified as farmland property, and its fair value was estimated by an independent appraiser at PLN 1,159 thousand. The land was initially recognized in the statement of financial position in the amount of PLN 540 thousand. The surplus between the book value and the fair value of land in the amount of PLN 619 thousand Group recognized on a revaluation reserve, which as at December 31, 2014 amounted to PLN 619 thousand.

(all amounts in PLN thousand)

19.5. Exchange differences on translating foreign operations

Exchange differences on translating foreign operations comprise all foreign exchange gains/(losses) arising on translation of the financial statements of a foreign subsidiary Grajewo OOO, of PLN (458) thousand.

19.6. Exchange differences on net investments in subsidiaries

Until January 23rd 2013, Pfleiderer Grajewo S.A. had receivables under loans advanced to its Russian subsidiaries Pfleiderer OOO and Pfleiderer MDF OOO. The loans were treated as net investments in these subsidiaries; therefore, in accordance with IAS 21, exchange gains/(losses) on translating these receivables were presented as other comprehensive income (a separate item of equity) under exchange differences on net investments in subsidiaries. In 2013, all exchange gains/(losses) on net investments relate to discontinued operations. As at December 31st 2013 and December 31st 2014 receivables value is PLN 0.

19.7. Dividends

The Parent did not pay dividend in 2014.

20. Earnings per share

Earnings per share were calculated based on the profit of equity holders of the Parent attributable to ordinary shares and the weighted average number of ordinary shares outstanding during the twelve months.

Net profit of the owners of the Parent attributable to ordinary shares for the financial year ended December 31st 2014 amounted to PLN 103,256 thousand, whereas net profit attributable to ordinary shares for the financial year ended December 31st 2013 was PLN 152,541 thousand (of which PLN 55,024 thousand related to net profit from continuing operations, and PLN 97,517 thousand to net profit from discontinued operations).

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

	Jan 1– Dec 31 2014	**Jan 1– Dec 31 2013**
Number of ordinary shares as at January 1st	49,624,000	49,624,000
Number of ordinary shares as at December 31st	49,624,000	49,624,000
Weighted average number of shares as at December 31st	49,624,000	49,624,000

	Jan 1– Dec 31 2014	**Jan 1– Dec 31 2013**
Earnings per share	2.08	3.07
Diluted earnings per share	2.08	3.07

(all amounts in PLN thousand)

21. Borrowings and other debt instruments

	Dec 31 2014	Dec 31 2013
Non-current liabilities		
Non-current portion of interest-bearing bank borrowings	63,696	86,801
Total	**63,696**	**86,801**
Current liabilities		
Overdraft facilities repayable in less than 12 months from the end of the reporting period	22,955	26,652
Current portion of interest-bearing bank borrowings	21,700	41,078
Total	**44,655**	**67,730**

(all amounts in PLN thousand)

Bank borrowings

The Group has credit facilities available in the form of overdraft facility and short- and long-term portion of special-purpose bank borrowings. As at December 31 2014, liabilities under bank borrowings were PLN 108,351 thousand.

All credit lines used by the Group bear variable interest equal to WIBOR plus margin.

Terms and repayment schedules of the bank borrowings as at December 31st 2014 and December 31st 2013:

						As at Dec 31 2014		As at Dec 31 2013	
Lender	**Currency**	**Interest rate**	**Maturity date**	**Security**	**Credit limit**	**Current portion**	**Non-current portion**	**Current portion**	**Non-current portion**
Millennium S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	75,000	2,373	0	5,042	0
Millennium S.A.	PLN	1M WIBOR + margin	Jun 25 2016	mortgage	25,000	2,582	0	6,110	0
Alior Bank S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	75,000	826	0	0	0
Alior Bank S.A.	PLN	1M WIBOR + margin	Jun 25 2016	mortgage	25,000	868	0	4,491	0
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	45,000	0	0	0	0
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	Jun 25 2016	mortgage	15,000	2,396	0	5,905	0
Bank Ochrony Środowiska S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	40,000	2,725	0	5,104	0
PKO Bank Polski S.A.	PLN	1M WIBOR + margin	Aug 31 2015	mortgage, registered pledge, assignments	54,000	11,185	0	37,078	0
PKO Bank Polski S.A.	PLN	3M WIBOR + margin	Oct 15 2018	mortgage, registered pledge, assignments	-	21,700	63,696	4,000	86,801
					354,000	**44,655**	**63,696**	**67,730**	**86,801**

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 current credit facility agreements. The total credit limit available under the facilities provided by four banks amounts to PLN 300,000 thousand and secures the financial liquidity of the Parent and its subsidiaries.

21.1. 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 thousand, including a PLN 75,000 thousand multi-purpose credit facility agreement and an overdraft facility agreement of up to PLN 25,000 thousand .

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 thousand.

Moreover, Silekol Sp. z o.o., a subsidiary of the Parent, 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 agreement provides for the repayment of the entire loan after five years from execution of the agreement, while the overdrafts are to be repaid within three years. The facilities are used to finance the borrowers' day-to-day operations.

21.2. Credit facility agreement with Alior Bank S.A.

On June 26th 2013, the Parent entered into a PLN 75,000 thousand 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 within five years from the agreement execution date.

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 thousand, under which the bank granted to the Parent 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. each.

The facility, used to finance the borrowers' day-to-day operations of the borrowers, is repayable within three years from the agreement execution date. 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.

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

On June 26th 2013, the Parent entered into a PLN 45,000 thousand multi-purpose credit facility agreement with Bank Zachodni WBK S.A. The credit facility, taken out to secure liquidity and finance capital expenditure, is to be repaid in full within five years from the agreement execution date.

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 thousand (a joint overdraft limit for all three borrowers).

The facility, designed to secure liquidity and finance capital expenditure, is to be repaid in full within three years from the agreement execution date. Total liabilities of the three borrowers under the two agreements with Bank Zachodni WBK S.A. may not exceed PLN 60,000 thousand.

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

On June 27th 2013, the Parent entered into a PLN 40,000 thousand multi-purpose credit facility agreement with Bank Ochrony Środowiska S.A. to finance the Parent's day-to-day operations.

(all amounts in PLN thousand)

The facility is to be repaid within five years from the date of execution of the agreement.

Intentional credit agreements:

Investment facility agreement with PKO BP S.A.

On January 15th 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 235,022 thousand investment facility agreement with PKO BP S.A. It is a special-purpose facility obtained to finance the construction of the MDF board production plant in Grajewo. As at December 31st 2014, the Group's debt outstanding under this facility was PLN 85,396 thousand (December 31st 2013: PLN 90,801 thousand).

Multi-purpose facility agreement with PKO BP S.A.

On August 29th 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 65,000 thousand multi-purpose facility agreement with PKO BP S.A. The agreement provides for a PLN 30,000 thousand overdraft facility, a PLN 30,000 thousand revolving working capital facility, and a PLN 5,000 thousand guarantee and letter-of-credit limit. Under an amendment signed on March 23rd 2009, the amount of the multi-purpose facility was reduced to PLN 57,000 thousand. Following execution of the amendment, the facility agreement provides for an overdraft facility of PLN 25,900 thousand, a revolving working capital facility of PLN 30,000 thousand, and a guarantee and letter-of-credit limit of PLN 1,100 thousand. Under the amendment, the term of the facility was extended until August 31st 2015. The amount of the multi-purpose facility loan was reduced over the three following years starting from 2011 and . As at December 31st 2014, the amount outstanding under the facility was PLN 11,185 thousand.

Liabilities under borrowings from related parties

As at December 31st 2014 and December 31st 2013, the Group did not carry any borrowings from related parties.

22. Employee benefit obligations

	Dec 31 2014	Dec 31 2013
Salaries and wages	3,981	3,496
Personal income tax	1,516	1,048
Social security	4,644	4,192
Social Benefits Fund	1,678	1,717
Retirement bonus obligations	11,549	8,329
Unused holiday entitlement obligations	3,949	3,571
Employee bonus obligations	7,018	7,699
Total	**34,335**	**30,052**
Non-current portion	10,986	8,020
Current portion	23,349	22,032
	34,335	**30,052**

Retirement bonus and disability severance payment obligations

Every employee reaching the retirement age (67 years, based on the transitional regulations – Dz. U. of June 6th 2012, item 637), who has the required length of service, for which they can provide evidence, is entitled to receive retirement bonus. Employees with permanent work disability, entitling to disability benefits under the social security scheme, are entitled to receive disability severance payment. The amount of retirement bonus or disability severance payment is computed based on the employee’s one-month pay. The amount of bonus or severance payment increases proportionately following ten years of service at the Company at the rate of 10% of the base pay for each year of service above ten years, and following 20 years of service at the Company – at the rate of 20% of the base pay for each year of service above 20 years. Pursuant to z Art. 92^1§1 of the Labour Code, retirement and disability severance payments must not be lower than the employee's one-month pay.

Obligations under retirement and disability severance payments were determined by a qualified actuary using the actuarial projected unit credit method, assuming annual remuneration growth rate at 4% and a discount rate of 2.7%.

Assumptions used for calculation of the retirement bonus:

- Data on staff turnover was derived from the statistics of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Silekol Sp. z o.o., Pfleiderer MDF Sp. z o.o., and Jura Polska Sp. z o.o., as well as from the statistics available to HALLEY.PL AKTUARIUSZE Sp. z o.o., an actuarial firm. To reflect the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.
- The mortality rate was based on the likelihood of death depending on age, based on the 2013 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the population of The Group's employees has the mortality rate provided in the tables, adjusted for the mortality multiplier. It was further assumed that the mortality rate is constant throughout the year.
- The likelihood of becoming a disabled person was based on the historical data of the Social Insurance Institution and estimates prepared by actuarial firm HALLEY.PL AKTUARIUSZE Sp. z o.o. On the basis of generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, length of service or sex. The model does not show significant sensitivity to slight changes of this parameter.
- The retirement age for men is 67 (based on the transitional regulations of June 6th 2012).
- In accordance with the rules governing the award of length-of-service awards, persons terminating their employment with the Company lose their right to any future length-of-service award, retirement bonus or disability severance payment.
- The date for calculating all entitlements was the beginning of each calendar year, with the assumption that the entitlements are evenly distributed throughout the year.
- The remuneration growth rate was assumed at 4% per annum.
- The discount rate on future benefits was assumed at 2.7%.

Employee bonus obligations

The Group recognises a provision for quarterly and annual bonuses paid to the Group employees. They are recognised with respect to specific completed tasks for which the employees will receive cash remuneration paid in cash in the future.

(all amounts in PLN thousand)

23. Provisions

	Provisions for employee claims		Provisions for employee claims
As at Jan 1 2014	**786**	**As at Jan 1 2013**	**739**
Increase	29	Increase	47
Reversal	0	Reversal	0
As at Dec 31 2014	**815**	**As at Dec 31 2013**	**786**
Non-current portion	815	Non-current portion	786
Current portion	0	Current portion	0
	815		**786**

Provisions for employee claims

Provisions for employee claims were recognised to cover the cost of cancelling the loans granted to employees to finance share purchases, to the extent exceeding the carrying amount of receivables under loans advanced to employees for that purpose.

24. Trade and other payables

	Dec 31 2014	Dec 31 2013
Trade payables	125,260	130,833
Trade payables to related parties	4,886	5,784
Liabilities under factoring agreements	42,811	37,462
VAT liabilities	809	154
Liabilities under investment deliveries	18,374	18,091
Liabilities from derivatives (forward transactions)	394	0
Prepaid deliveries	2,096	2,437
Liabilities related to shares acquired in a subsidiary	0	29,360
Other liabilities	11,659	16,139
Total	**206,289**	**240,260**

For details on liabilities under factoring agreements, see Note 17. Other liabilities are related to accrued expenses and deferred income.

Trade and other payables include the following financial liabilities:

	Dec 31 2014	Dec 31 2013
Trade payables	125,260	130,833
Trade payables to related parties	4,886	5,784
Liabilities under factoring agreements	42,811	37,462
Liabilities for investment projects	18,374	18,091
Liabilities from derivatives	394	0
Liabilities related to shares acquired in a subsidiary	0	29,360
Other liabilities	10,274	13,641
Total	**201,999**	**235,171**

25. 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 future operations; in particular, the Group focuses on market risk, including interest rate risk, currency risk, credit risk, and liquidity risk.

The objective of the Group's credit risk management is to reduce losses which could be incurred due to customers' insolvency. This risk is mitigated with use of receivables insurance and factoring services.

The objective of currency risk management is to minimise losses arising from unfavourable changes in foreign exchange rates. The Group monitors its currency position in order to project its cash flows. To manage the currency risk, the Group primarily relies on natural hedging and, where necessary, forward contracts.

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

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

25.1. Credit risk

Transactions which expose the Group to credit risk include trade receivables, receivables from loans and cash and cash equivalents. In accordance with the Management Board's policy, the Group's credit risk exposure is monitored on an ongoing basis.

Credit risk related to cash is limited as the Group deposits its assets only in financial institutions with a recognized financial standing.

Credit risk related to receivables from loans is not diversified, the Group has a claim on a loan from one entity - 3 Spare Sp. z o.o., which is a significant concentration of credit risk as at 31 December 2014.

The Group evaluates credit standing of all customers who require trade credit above pre-defined limits. The Group does not require any security on customer assets.

The Group insures its trade receivables. As at December 31st 2014, approximately 90% of total trade receivables from non-related parties were covered with trade credit insurance. The insurance policies mitigate credit risk – if a customer fails to pay, the insurer covers the loss.

The Group did not incur any significant losses due to customer default. Impairment losses are recognised on uninsured receivables and on amounts corresponding to the Group's deductibles in receivables insured, based on detailed analysis of the accounts receivable.

The carrying amount of each financial asset, including financial derivatives, represents the maximum credit risk exposure.

(all amounts in PLN thousand)

The total credit risk exposure was as follows:

	Dec 31 2014	**Dec 31 2013**
Loans advanced and receivables	107,415	90,387
Cash and cash equivalents	18,512	16,450
Other non-current financial assets	0	18,738
Total	**125,927**	**125,575**

As at December 31st 2014 and December 31st 2013, the ageing structure of trade receivables was as follows:

	Gross value **Dec 31 2014**	Impairment loss **Dec 31 2014**
Not overdue	61,097	169
Overdue by:		
0–180 days	19,551	2,361
180–360 days	112	25
More than 360 days	6,942	6,704
Total	**87,702**	**9,259**

	Gross value **Dec 31 2013**	Impairment loss **Dec 31 2013**
Not overdue	51,247	584
Overdue by:		
0–180 days	29,540	3,023
180–360 days	40	2
More than 360 days	9,204	7,038
Total	**90,031**	**10,647**

Changes in impairment losses on trade receivables in the twelve months ended December 31st 2014 and December 31st 2013 are presented below.

	Jan 1– Dec 31 2014	**Jan 1– Dec 31 2013**
Balance at beginning of the period	10,647	11,453
Change in impairment losses	(1,388)	(806)
Balance at end of the period	**9,259**	**10,647**

(all amounts in PLN thousand)

25.2. Interest rate risk

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

Variable-rate financial instruments	**Dec 31 2014**	**Dec 31 2013**
Financial assets	7,347	216
Financial liabilities	108,351	191,993
	115,698	**192,209**

Sensitivity of cash flows from variable-rate financial instruments

A 1% change in interest rates would lead to a change in net profit by the amounts presented below. The analysis is based on the assumption that other variables, especially currency exchange rates, remain unchanged; the following analysis refers to cash flows:.

	Jan 1−Dec 31 2014		**Jan 1−Dec 31 2013**	
	increase 1%	**decrease 1%**	**increase 1%**	**decrease 1%**
Variable-rate financial instruments	(1,763)	1,763	(5,449)	5,449
Difference in amount of interest and effect on profit/(loss) before tax	(1,632)	1,763	(5,449)	5,449
Difference in amount of interest and effect on net profit/(loss)	(1,428)	1,428	(4,414)	4,414
Effect on equity	0	0	0	0

Sensitivity of fair value of fixed-rate financial instruments

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

25.3. Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of materials and merchandise, and sale of finished goods. Therefore, any foreign exchange gains or losses resulting from exchange rate fluctuations mostly offset each other (natural hedging). The Group also incurs capital expenditure in foreign currencies. The Group monitors its foreign currency positions on an ongoing basis and hedges open positions with forward transactions. Forward and swap transactions included purchase of foreign currency at a predetermined rate. In 2014, the Group used forward contracts to hedge its currency risk related to business transactions (export of goods). The forward contracts used to hedge the Group's business transactions consist in the sale of EUR at a pre-determined rate. This helps to secure margins on export sales and to mitigate the risk of adverse changes of the margins due to appreciation of the Polish zloty.

As at December 31st 2014, Pfleiderer Grajewo S.A. held 30 open EUR/PLN FX forward contracts for the sale of EUR 65,080 thousand with settlement dates falling between January 29th

2015 and December 29th 2016. Valuation of the transactions as at December 31st 2014 was positive at PLN 1,213 thousand (fair value – level 2).

In addition, as at December 31st 2014 Silekol Sp. z.o.o., a subsidiary, held three open EUR/PLN FX forward contracts for the sale of a total of EUR 5,800 thousand with settlement dates falling before the end of March 2015. As at December 31st, 2014 the forward contracts were measured at PLN 394 thousand (fair value level 2)

Forward and swap contracts are measured at the end of each month.

As at December 31st 2014, no other Group company was party under derivative contracts.

The Group's exposure to currency risk, calculated at the exchange rates effective at the end of the reporting period (PLN '000):

As at Dec 31 2014:	**EUR**	**USD**	**RON**
Cash	16,061	27	0
Trade receivables	49,075	0	0
Other receivables - escrow	19,180	0	0
Trade payables	(44,657)	0	(18)
Balance-sheet exposure, gross	**39,659**	**27**	**(18)**
Transactions in derivative instruments *	(302,111)	0	0
Net exposure under financial instruments	**(262,425)**	**27**	**(18)**

* The FX forward contracts are set to hedge future cash flows mainly from sales agreement denominated in EUR, estimated contract value amounts to PLN 306 m till the end of 2016.

As at Dec 31 2013:	**EUR**	**USD**	**RON**
Cash and cash equivalents	9,911	137	0
Trade receivables	47,422	0	0
Other receivables - escrow	26,957	0	0
Trade payables	(35,920)	0	(16)
Other liabilities	(29,601)	0	0
Balance-sheet exposure, gross	**18,769**	**137**	**(16)**
Transactions in derivative instruments	(10,575)	0	0
Net exposure under financial instruments	**8,194**	**137**	**(16)**

(all amounts in PLN thousand)

Sensitivity to currency exchange rate changes

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

As at Dec 31 2014:	**+5%**	**-5%**
EUR	747	(747)
USD	1	(1)
RON	(1)	1
Effect on profit/(loss) before tax	747	(747)
Effect on net profit/(loss)	747	(747)
Effect on equity	(11,234)	11,234

As at Dec 31 2013:	**+5%**	**-5%**
EUR	410	(410)
USD	7	(7)
RON	(1)	1
Effect on profit/(loss) before tax	416	(416)
Effect on net profit/(loss)	416	(416)
Effect on equity	0	0

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

Currency	**Exchange rate as at Dec 31 2014**	**Exchange rate as at Dec 31 2013**
EUR	4.2623	4.1472
USD	3.5072	3.0120
RON	0.9510	0.9262

(all amounts in PLN thousand)

25.4. Liquidity risk

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

As at Dec 31 2013:	**Carrying amount**	**Contractual cash flows**	**Below 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Overdraft facilities	26,652	26,652	26,652	0	0	0	0
Liabilities under borrowings and other debt instruments	127,879	142,419	2,314	39,695	4,098	96,312	0
Trade and other payables	235,171	235,171	235,171	0	0	0	0
	389,702	**404,242**	**264,137**	**39,695**	**4,098**	**96,312**	**0**

As at Dec 31 2014	**Carrying amount**	**Contractual cash flows**	**Below 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Overdraft facilities	22,955	23,296	12,026	11,270	0	0	0
Liabilities under borrowings and other debt instruments	85,396	92,741	11,924	12,488	24,234	44,095	0
Trade and other payables	201,999	201,999	201,999	0	0	0	0
	310,380	**318,036**	**225,=949**	**23,758**	**24,234**	**44,095**	**0**

(all amounts in PLN thousand)

As at December 31st 2014, the Group's debt outstanding under the bank borrowings was PLN 108,351 thousand. As at December 31st 2014, unused credit facilities amounted to PLN 320,867 thousand. The Group also held cash of PLN 18,512 thousand.

25.5. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is close to their carrying amounts as at December 31st 2014 and December 31st 2013.

25.6. Capital management

The key ratio used by the Group to monitor equity is the ratio of equity to total assets. At the end of 2014, the ratio was 62.15%, up from 58.30% a year before.

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

	Dec 31 2014	Dec 31 2013
Equity	756,370	652,275
Total assets	1,216,993	1,118,793
Ratio:		
$\frac{\textit{Equity}}{\textit{Total assets}}$	**62.15%**	**58.30%**

The Group did not pay dividend in 2014.

Pursuant to the Commercial Companies Code, the Parent is obliged to create statutory reserve funds by transferring at least 8% of profit for a given financial year to the statutory reserve funds until the amount of the statutory reserve funds reaches one-third of the Company's share capital.

26. Operating lease agreements

The Group uses some of its production assets under operating lease agreements. The average lease term is three years and the agreements will expire in 2015-2018. Monthly lease payments are charged to the reporting period's profit or loss using the straight-line method.

The Group also leases passenger cars under operating lease agreements. The term of all these agreements is 36 months and the agreements will expire in 2015-2017.

The costs incurred by the Group under the operating lease agreements in 2014 were PLN 7,295 thousand (2013: PLN 7,279 thousand).

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

	Dec 31 2014	Dec 31 2013
From 1 to 5 years	1,499	10,891
Up to one year	7,095	7,433
Total	**8,594**	**18,324**

(all amounts in PLN thousand)

27. Contractual commitments to purchase property, plant and equipment and intangible assets

As at December 31st 2014, the Group had contractual commitments to acquire property, plant and equipment and intangible assets. The commitments relate to 13 open investment projects and were incurred under agreements concluded by the Group as part of its investment activities.

	Dec 31 2014	**Dec 31 2013**
Commitments to acquire property, plant and equipment	17,291	25,726
- *fixed assets*	*17,062*	*25,411*
- *intangible assets*	*229*	*315*

28. Contingent liabilities

As at December 31st 2014, the Group did not identify any significant contingent liabilities except possible liability resulting from the antitrust proceedings described in Note 31.

(all amounts in PLN thousand)

29. Material related-party transactions

In the 2014 financial year, the Group executed the following commercial transactions with related parties which are not Group entities:

	Jan 1−Dec 31 2014				As at Dec 31 2014		
Entity	**Revenue**	**Other income**	**Operating cost**	**Acquisition of property, plant and equipment**	**Trade receivables**	**Trade payables**	**Investment liabilities**
Pfleiderer Service GmbH	-	-	49	-	-	-	-
Pfleiderer GmbH	-	-	4,962	-	-	1,265	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	2,919	145	19,821	21	-	2,922	533
Pfleiderer Neumarkt GmbH	25,081	-	-	-	8,010	-	-
Pfleiderer Leutkirch GmbH	5,778	-	91	-	2,386	-	-
Pfleiderer Gütersloh GmbH	20,272	-	731	-	8,298	52	-
Jura Speditions GmbH	32	-	3,974	-	-	647	-
Pfleiderer Arnsberg GmbH	511	-	14	-	314	-	-
Kunz Faserplattenwerk Baruth GmbH	50,265	-	-	-	17,716	-	-
Pfleiderer France S.A.S.	-	-	9	-	-	-	-
Pfleiderer B.V.	-	-	16	-	-	-	-
Pfleiderer Industrie Limited	-	-	4	-	-	-	-
Total	**104,858**	**145**	**29,671**	**21**	**36,724**	**4,886**	**533**

All related-party transactions were executed on an arm's length basis.
No security was created for any outstanding receivables, and all such receivables will be settled in cash. No guarantees were issued to or received from related parties. In the reporting period, no costs related to doubtful or non-performing receivables under related-party transactions were recognised.

(all amounts in PLN thousand)

In the 2013 financial year, the Group executed the following transactions with related parties which are not Group entities:

		Jan 1–Dec 31 2013				As at Dec 31 2013		
Entity		**Revenue**	**Operating cost**	**Finance costs**	**Acquisition of property, plant and equipment**	**Balance of trade receivables**	**Trade payables**	**Investment commitments/ liabilities**
Pfleiderer Service GmbH		23	1,575	879	-	258	146	-
Pfleiderer GmbH		2	4,689	-	-	-	1,037	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	*)	4,762	17,890	-	501	225	2,980	498
Pfleiderer Neumarkt GmbH		32,699	-	-	-	8,751	831	-
Pfleiderer Leutkirch GmbH		926	39	-	-	599	14	-
Pfleiderer Gütersloh GmbH		25,124	1,683	-	-	6,659	101	-
Jura Speditions GmbH		-	3,984	-	-	-	675	-
Pfleiderer Holzwerkstoffe Gschwend GmbH		-	-	-	-	-	-	-
Pfleiderer Arnsberg GmbH		982	-	-		14	-	
Pfleiderer Baruth GmbH		55,106	-	-	-	18,173	-	-
Pfleiderer France S.A.S.		-	4	-	-	-	-	-
Pfleiderer B.V.		-	23	-	-	-	-	-
Pfleiderer Industrie Limited		-	18	-	-	-	-	-
Total		**119,624**	**29,905**	**879**	**501**	**34,679**	**5,784**	**498**
Discontinued operations								
Blitz 11-446 GmbH		4,866	-	-	-	4,147	-	-
Total		**124,490**	**29,905**	**879**	**501**	**38,826**	**5,784**	**498**

**) On July 28th 2014, Pfleiderer Holzwerkstoffe Gschwend GmbH merged with and Pfleiderer Holzwerkstoffe GmbH. Thus, to ensure comparability of data the balancesof settlements of the two companies were aggregated.*

(all amounts in PLN thousand)

Remuneration of members of the Management and Supervisory Boards

Remuneration of members of the Parent's Management Board paid and payable for the reporting period:

Name	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Wojciech Gątkiewicz	1,407	1,338
Dariusz Tomaszewski	805	766
Rafał Karcz	807	794
Radosław Wierzbicki	0	834
	3,019	**3,732**

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

Name	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Wojciech Gątkiewicz	962	898
Dariusz Tomaszewski	554	521
Rafał Karcz	518	487
Radosław Wierzbicki	0	153
	2,034	**2,059**

In the reporting period Mr Rafał Karcz and Mr Dariusz Tomaszewski held management positions at Pfleiderer MDF Sp. z o.o.; without receiving any remuneration for the services rendered.

As at December 31st 2014, Mr Dariusz Tomaszewski, Member of the Management Board of Pfleiderer Prospan S.A., had an outstanding debt of PLN 26 thousand, under a loan taken out in 1997 from the Privatisation Fund to finance purchase of Prospan shares.

As at December 31st 2014, the other members of Parent's Management Board had no outstanding loan-related debt towards the Group.

As at December 31st 2014, members of the Management and Supervisory Boards held the following number of Pfleiderer Grajewo shares:

- 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

The managerial contract between the Parent and Mr Rafał Karcz, Member of the Management Board, provides, in case of termination of the contract before December 31st 2015, a contractual penalty amounting to a remuneration remaining until December 31st 2015. Contract provides for a 12-month notice period with effect as of the end of calendar half-year.

The managerial contract between Pfleiderer Prospan S.A. and Mr Dariusz Tomaszewski, Member of the Management Board, contains a provision whereby Mr Tomaszewski is emitted to receive a one-off termination benefit equal to his one-month remuneration if the contract is terminated by notice.

The managerial contract with Mr Wojciech Gątkiewicz, President of the Management Board, provides, in case of termination of the contract before December 31st 2015, a contractual penalty amounting to a remuneration remaining until December 31st 2015. Contract provides for a 12-month notice period with effect as of the end of calendar half-year.

(all amounts in PLN thousand)

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

Name	**Jan 1– Dec 31 2014**	**Jan 1– Dec 31 2013**
Michael Wolff	210	210
Jochen Schapka	105	105
Gerd Schubert	53	0
Richard Mayer	105	88
Jan Woźniak	105	105
Gerd Hammerschmidt	52	105
Hans – Kurt Von Werder	0	17
	630	**630**

As at December 31st 2014, members of the Supervisory Board of Pfleiderer Grajewo S.A. had no outstanding debt under loans from the Group.

Members of the Pfleiderer Grajewo Supervisory Board did not hold any shares in the Parent.

(all amounts in PLN thousand)

30. Supplementary information to the consolidated statement of cash flows

Structure of cash and cash equivalents

	Dec 31 2014	Dec 31 2013
Cash in hand and at banks	18,512	16,450
Overdraft facility	(621)	0
Cash disclosed in the consolidated statement of cash flows	**17,891**	**16,450**

Increase/(decrease) in liabilities

	Dec 31 2014	Dec 31 2013
Increase/(decrease) in trade and other payables	(33,971)	43 149
Decrease in investment liabilities	(283)	(9,040)
Liabilities under acquisition of non-controlling interests	30,322	(30,322)
Liabilities from derivatives	(394)	0
Other	6 625	(7,453)
Increase/(decrease) in liabilities	**2,299**	**(3,666)**

31. 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.

In the course of the proceedings, Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A., its subsidiary, provided additional information required by the Office. At present, based on the available information the Parent’s Management Board is not able to assess the risk of a negative outcome of the proceedings 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.

32. Events subsequent to the end of the reporting period

After 31 December 2014. following changes in the Composition of the Supervisory Board took place:

In accordance with a resolution of the Extraordinary General Meeting dated January 30th 2015, Mr Michael Wolff was recalled from the position of Chairman of the Pfleiderer Grajewo Supervisory Board and Mr Gerd Schubert was recalled from the position of Member of the Pfleiderer Grajewo Supervisory Board.

On January 30th 2015 Mr Paolo G. Antonietti and Mr Michael F. Keppel were appointed to the Pfleiderer Grajewo Supervisory Board.

On February 16th 2015 the Supervisory Board appointed Mr Paolo G. Antonietti for a position of Chairman of Supervisory Board and Mr. Michael F. Keppel for a position of Vice Chairman of the Supervisory Board.

On 16 February 2015, the Supervisory Board of Pfleiderer Grajewo S.A.

- elected Mr. Michael Wolff to the Management Board of the Company and entrusted him a function of President of Management Board;
- elected Dr. Gerd Schubert to the Management Board of the Company and entrusted him a function of Chief Operating Officer;
- recalled Mr. Wojciech Gątkiewicz from a function of President of Management Board and entrusted him a function of Member of Management Board - Chief Transformation Officer.

33. Accounting estimates and judgement

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of uncertainty with respect to the estimates as well as about critical judgements made in applying accounting policies is provided in the following notes:

- Notes to the annual consolidated financial statements, Chapter 6, Section d (v) , e (iv) – useful lives of property, plant and equipment and intangible assets – determined based on estimated useful lives of property, plant and equipment and intangible assets and verified at least annually.
- Notes 3, 10 – Goodwill, recoverable goodwill, recoverable amount of non-financial non-current assets – if there is an indicator of impairment, the recoverable amount is determined as the higher of fair value less cost to sell or value in use (based on discounted cash flows) by applying the appropriate discount rate (cost of capital, growth rates),
- Note 14 – Corporate income tax – recognition of corporate income tax or settlement of tax loss carried forward based on assumption that in future taxable income will be generated,
- Note 17 – Derecognition of trade receivables covered by factoring arrangements – based on analysis of risk and benefit transfer, control retention and degree of involvement,
- Note 22 – Measurement of liabilities under defined employee benefits – employee benefits are evaluated by an actuary. The valuation is based on assumptions regarding interest rates, remuneration increase, inflation rate, and employment turnover,

- Notes 23, 28 and 31 – Provisions and contingent liabilities - recognition of provisions and contingent liabilities requires estimating the probable outflow of economic benefits and making the best estimate of expenditure required to settle present obligation at the end of reporting period,
- Note 25 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments,
- Note 26 – Classification of lease agreements – lease agreements are classified as finance leases or operating leases on the basis of an analysis of risks and benefits.

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Ewa Stańska
Person responsible for the accounting records

Grajewo, March 18th 2015

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 GRAJEWO GROUP

DIRECTORS' REPORT
ON THE OPERATIONS OF THE PFLEIDERER GRAJEWO GROUP
FOR THE PERIOD JANUARY 1ST− DECEMBER 31ST 2014

PFLEIDERER GRAJEWO GROUP

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period January 1st − December 31st 2014

Contents

1. Financial highlights

	PLN ‘000		EUR ‘000	
	Jan 1–Dec 31 2014	**Jan 1–Dec 31 2013**	**Jan 1–Dec 31 2014**	**Jan 1–Dec 31 2013**
Revenue	1,522,819	1,462,139	363,502	347,219
Operating profit	142,933	108,738	34,119	25,823
Profit before tax	128,014	80,680	30,557	19,159
Net profit attributable to owners of the parent	103,256	152,541	24,648	36,224
Net cash from operating activities	183,507	126,746	43,804	30,099
Net cash from investing activities	(89,632)	552,144	(21,395)	131,119
Net cash from financing activities	(92,434)	(679,958)	(22,064)	(161,472)
Total net cash flow	1,441	(1,068)	344	(254)
Basic earnings per share (in PLN/EUR)	2.08	3.07	0.50	0.73
Diluted earnings per share (in PLN/EUR)	2.08	3.07	0.50	0.73
Average PLN/EUR exchange rate			4.1893	4.2110

	PLN ‘000		EUR ‘000	
	Dec 31 2014	**Dec 31 2013**	**Dec 31 2014**	**Dec 31 2013**
Total assets	1,216,993	1,118,793	285,525	269,771
Liabilities	460,623	466,518	108,069	112,490
Non-current liabilities	176,518	134,647	41,414	32,467
Current liabilities	284,105	331,871	66,655	80,023
Equity	756,370	652,275	177,456	157,281
Share capital	16,376	16,376	3,842	3,949
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000
Book value per share (in PLN/EUR)	15.24	13.14	3.58	3.17
PLN/EUR exchange rate as at the end of the reporting period			4.2623	4.1472

2. General information

The Pfleiderer Grajewo Group consists of single-division enterprises. The Group's parent is Pfleiderer Grajewo S.A., whose principal place of business in Grajewo, a town in north-eastern Poland.

The Parent, under its former name of Zakłady Płyt Wiórowych S.A. of Grajewo, was originally registered on July 1st 1994 by the District Court, Commercial Court of Łomża, in Section B of the Commercial Register under entry No. 270. Subsequently, on May 9th 2001, it was registered by the District Court of Białystok, 12th Commercial Division of the National Court Register, under entry No. KRS 0000011422.

On September 18th 2002, the Company's Management Board received the decision of the District Court of Białystok to enter the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Parent's name was changed to Pfleiderer Grajewo S.A. The registered office of Pfleiderer Grajewo S.A. is situated at ul. Wiórowa 1, Grajewo, Poland. The shares of the Parent are publicly traded. In accordance with the Polish Classification of Business Activities, Pfleiderer Grajewo S.A. is registered under No. 1621 Z.

Tax Identification Number (NIP):	719-10-00-479
Industry Identification Number (REGON):	450093817

2.1. Pfleiderer Grajewo Group companies and their principal business activities

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

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

The Group operates manufacturing plants with various production profiles.

Pfleiderer Grajewo Group companies and their principal business activities:

Principal business activity 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, 20th Division of the National Court Register under entry No. KRS: 0000042082.

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

Principal business activity:

- manufacture of laminated 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 in the National Court Register by the District Court of Opole, 8th Commercial Division of the National Court Register of Opole, under entry No. KRS 0000225788 on January 6th 2005.

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

Principal business activity:

The company is a source of 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:

A Company entered in the National Court Register by the District Court of Białystok, 12th 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:	719-13-99-317
Registered address:	ul. Wiórowa nr 1, 19-203 Grajewo, Poland

Principal business activity:

- sale and intermediation in the sale of raw and laminated chipboards, films and foils,
- veneering of chipboards,
- manufacture of laminated and raw chipboards and other wood-based materials.

Jura Polska Sp. z o.o.

A Company 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

Principal business activity:

- transport,
- road transport of goods with specialised vehicles,
- road transport of goods with universal vehicles,
- lease of trucks.

Unifloor Sp. z o.o. in liquidation

A Company 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 in 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 Studenitzeskaya Street, Veliky Novgorod, Russia

The company trades in Russia.

2.2. Jointly-controlled entities

Blitz 11-446 GmbH

A Company 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

Principal business activity:

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

The business of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o. consists 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. Subsidiary Grajewo OOO trades in Russia. The other companies provide services and supply raw materials to the Group entities.

Information on the entities and their consolidation is provided in the supplementary notes to the annual consolidated financial statements.

2.3. Management of the Parent and its subsidiaries

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

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

As at December 31st 2014, the same Management Board also managed the activities of its subsidiary Pfleiderer Prospan S.A..

In the 12 months ended December 31st 2014, there were no changes in the composition of the Parent's Management Board. On February 16th 2015, the Supervisory Board of Pfleiderer Grajewo S.A.:

- appointed Mr Michael Wolff as the President of the Parent's Management Board,
- appointed Mr Gerd Schubert as the Member of the Management Board, Chief Operating Officer,
- recalled Wojciech Gątkiewicz from the position of President of the Management Board, and appointed him as the Member of the Management Board, Chief Transformation Officer.

The table below presents the composition of the management boards of the other subsidiaries as at December 31st 2014:

	Jura Polska Sp. z o.o.	Pfleiderer MDF Sp. z.o.o	Silekol Sp. z o.o.	Grajewo OOO
President of the Management Board	Krzysztof Brzostek	Rafał Karcz	Janusz Zowade	
Member:		Dariusz Tomaszewski	Marek Filusch	
Member:			Ewa Stańska	
Managing Director:				Elena Nedoshkovskaya

As at December 31st 2014 Unifloor Sp. z o.o. , did not have a Management Board as the Company was in the process of liquidation. Liquidator is Mr Ryszard Gruszka.

On October 1st 2014, Mrs Ewa Stańska was appointed to the position of Member of the Management Board of Silekol Sp. z o.o.

As at this Report's date, the Parent's Management Board consisted of:

1. Michael Wolff	President of the Management Board
2. Rafał Karcz	Member of the Management Board
3. Gerd Schubert	Member of the Management Board
4. Wojciech Gątkiewicz	Member of the Management Board
5. Dariusz Tomaszewski	Member of the Management Board

There were no changes in the composition of the Management Board of Pfleiderer Prospan S.A. after December 31st 2014.

2.4. Supervisory Board of the Parent

As at December 31st 2014, the composition of the Parent'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

During 12 months ended December 31st 2014, the following changes occurred in the composition of the Parent's Supervisory Board:

1. On June 23rd 2014, Mr Gerd Hammerschmidt resigned from the position of a Member of the Supervisory Board of Pfleiderer Grajewo S.A. effective from June 29th 2014.
2. On June 30th 2014, Mr Gerd Schubert was appointed to the position of the Member of the Parent's Supervisory Board.

The following changes in the composition of the Supervisory Board occurred after December 31st 2014:

1. On January 30th 2015, pursuant to a resolution of the Parent's Extraordinary General Meeting, Mr Michael Wolff was recalled from the position of Chairman of the Supervisory Board, and Mr Gerd Schubert was recalled from the position of Member of the Supervisory Board.
2. On January 30th 2015, the Parent's Extraordinary General Meeting appointed the following persons to the Supervisory Board Mr Paolo G. Antonietti and Mr Michael F. Keppel.

On February 16th 2015 the Supervisory Board appointed Mr Paolo G. Antonietti for a position of Chairman of Supervisory Board and Mr. Michael F. Keppel for a position of Vice Chairman of the Supervisory Board.

As at this Report's date, the Supervisory Board consisted of:

1. Paolo G. Antonietti	Chairman of the Supervisory Board
2. Michael F. Keppel	Deputy Chairman of the Supervisory Board
3. Jochen Schapka	Member of the Supervisory Board
4. Richard Mayer	Member of the Supervisory Board
5. Jan Woźniak	Member of the Supervisory Board

All duties and responsibilities of the audit committee were transferred to the Parent's Supervisory Board.

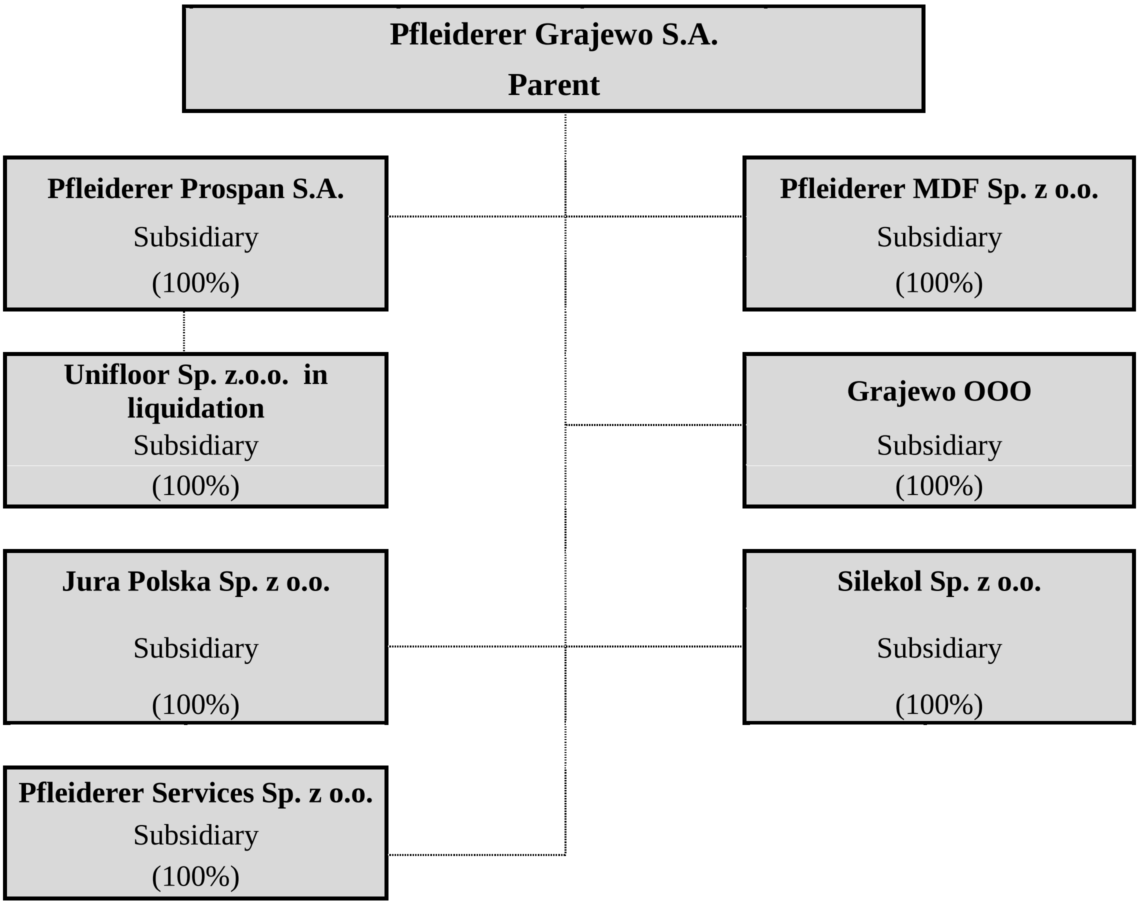
6. Structure of the Group as at December 31st 2014

In the period from January 1st to December 31st 2014, Pfleiderer Grajewo S.A. was the parent with respect to the following entities:

Consolidated subsidiaries:		**Dec 31 2014**	**Dec 31 2013**
1. Pfleiderer Prospan S.A.	Wieruszów	100%	100%
2. Silekol Sp. z o.o.	Kędzierzyn Koźle	100%	100%
3. Pfleiderer 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%
Equity-accounted jointly-controlled entities:			
7. Blitz 11-446 GmbH	Neumarkt	50%	50%
Entities which are not consolidated and are not equity-accounted:			
8. Pfleiderer Services Sp.	Grajewo	100%	100%

Re. 5 indirectly through Pfleiderer Prospan S.A.
Re. 6 purchase of shares on April 16th 2013.

Structure of the Group as at December 31st 2014:



Changes in the Group's structure in the reporting period

In the period from January 1st to December 31st 2014, the structure of the Group did not change relative to December 31st 2013.

Even though certain economic events took place in the current reporting period, they did not directly affect the Group's structure and followed from the previously executed agreements.

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

Following the purchase, Pfleiderer Grajewo S.A. holds 100% of Pfleiderer MDF Sp. z o.o.'s share capital.

Pfleiderer Service GmbH is the parent company of Pfleiderer Grajewo S.A.

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

Shareholding structure as of March 18th 2015	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, the number of shares of the Parent held by its main shareholder, Pfleiderer Service GmbH, did not change.

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

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

8. External and internal factors with a bearing on the Group's business

8.1. External factors with a bearing on the Group's business:

- Broader collaboration with customers, based on long-term framework agreements, providing the parties with assurance of stable cooperation and lasting development.
- Customer insolvency risk – the Group monitors the financial liquidity of its customers on an ongoing basis, and mitigates the risk by using trade credit insurance.
- Close cooperation with suppliers – key raw materials purchased by the Group include wood and wood waste, decorative paper, chemical substances, and machine parts. The Group mitigates the related risk by using diversified sources of supplies. Increases in the prices of the raw materials affect the Group as well as its competitors and therefore have no adverse impact on the Group's competitive position.
- Currency risk – the Group is not exposed to any significant currency risk. It monitors its exposure to exchange-rate fluctuations on an ongoing basis and relies on natural hedging and forward transactions to hedge the risk.
- Seasonality – sales typically fall in the second quarter and peak in the second half of the calendar year. Seasonal changes do not give rise to a significant risk for the Group as lower sales in the period are accompanied by lower purchases of raw materials. The Group's liquidity remains stable in the second quarter.

8.2. Internal factors with a bearing on the Group's business:

- Technological process – the technologies employed by the Group result in exposure to fire hazard. To mitigate the risk, the Group uses a number of technical and organisational safeguards. The risk of unplanned downtime is reduced through the implementation of an annual maintenance and modernization as well as maintaining a strategic stock of spare parts.
- Debt risk – as the Parent, Pfleiderer Grajewo S.A. bears all the burdens related to the financing of investment projects. The debt level is monitored on an ongoing basis. To mitigate the liquidity risk, the Group uses a full spectrum of available financial instruments.

9. Current and future activities of the Group

9.1. Plans and development prospects for 2015

- Start of comprehensive structural integration of BC East and BC West business units. The unification of processes and activities is intended to improve the Group's competitiveness and unlock new markets.
- Continuation of the long-term investment programme to upgrade the Group's plants to better align its production capacities with market needs and generate cost efficiencies.
- Continued roll out of standardised visual identification for Pfleiderer Partner sale outlets.
- Adapting the product offering to meet market needs – not only in terms of quality, but also design – through continued collaboration with designers and active presence at trade events for interior designers (promotion of new designs for finished furniture products).
- Expansion onto European markets.
- Implementation of new technical systems and improving the efficiency of the Group through further optimisation of the production processes and a cost savings programme.
- Promotion of the Pfleiderer brand as a modern and continuously developing organisation, which implements state-of-the-art technologies and respects the natural environment.

9.2. In 2014, the efforts of Pfleiderer Grajewo S.A. were focused on the following tasks:

- Development of a new model of cooperation with customers to increase sales on the existing and new markets and shorten delivery times.
- Activities geared towards enabling effective expansion on the interior design market.
- Enhancement of efficiency and production processes through tight cost control.
- Improving the quality of products and services.
- Analysis of production and sales volumes and adjusting them to current market demand.
- Optimisation efforts designed to improve the Group's operating efficiency.
- Securing of wood and chemicals supplies.
- Improvement of the Group's working capital.
- Promotion of the Company's image as a financially stable and reliable business partner.
- Strengthening of Pfleiderer's market position by promoting the Pfleiderer brand and vision.
- Market launch of a new decor collection.
- Analysis of the Group's financial standing, current sales strategy and organisation of the production and distribution processes in order to improve efficiency and identify areas in need of restructuring.
- Expansion and consolidation of the dealership network, creation of standardised visual identification for Pfleiderer Partner sale outlets.
- Finalisation of acquisition of non-controlling interests in subsidiaries.
- Prolongation of permission to operate in the special economic zone by Pfleiderer MDF Sp. z o.o. for 10 years.

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

10.1. Financial standing of the Pfleiderer Grajewo Group

The structure of financing of the Group's assets was as follows as at the reporting date (PLN '000):

	Dec 31 2014	Dec 31 2013
Equity (attributable to owners of the parent)	756,370	652,275
Total equity	756,370	652,275
Non-current liabilities	176,518	134,647
Long-term capital (total equity + non-current liabilities)	932,888	786,922
Current liabilities	284,105	331,871

The Group finances its operations with own funds and bank borrowings. In June 2013, Pfleiderer Grajewo S.A. (the Parent) and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000 thousand and ensures the financial liquidity of the Parent and its subsidiaries.

The Pfleiderer Grajewo Group also supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. z o.o. and BZ WBK Faktor Sp. z o.o. This form of financing was available to Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o., and was limited to PLN 245,000 thousand. The factoring agreements with BZ WBK Faktor Sp. z o.o. have been executed for an indefinite period, while the term of the agreements with PEKAO Factoring Sp. z o.o. is at least one year. The agreements are automatically prolonged for the next year if neither party notifies the other party of its intention not to extend an agreement, with the proviso that such notice may be sent no later than two months before the expiry of a given agreement.

The internal financing within the Pfleiderer Grajewo Group comprises loans advanced by Pfleiderer Grajewo S.A. to its subsidiary Pfleiderer MDF Sp. z o.o., as well as a short-term note (commercial paper) programme. The notes are issued by Pfleiderer Grajewo S.A. and acquired by Pfleiderer Prospan S.A. The programme and the loans are designed to provide financing to all of the Group companies and optimise cash management within the Group.

10.2. Workforce and remuneration at the Pfleiderer Grajewo Group

As at December 31st 2014, the Group employed 1,267 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board. The Group's employment structure as at the end of the reporting period was as follows:

Employees	Dec 31 2014	Dec 31 2013
- direct production employees	666	663
- indirect production employees	272	272
- administration, office and other employees	329	337
Total	**1,267**	**1,272**

Workforce at Group companies:

Company	Workforce in 2014	Employees directly involved in production	Employees indirectly involved in production	Administration and office employees
Pfleiderer Grajewo S.A.	570	270	132	168
Pfleiderer Prospan S.A.	428	214	116	98
Grajewo OOO	2	0	0	2
Jura Polska Sp. z o.o.	32	10	0	22
Silekol Sp. z o.o	93	53	24	16
Pfleiderer MDF Sp. z.o.o:	142	119	0	23
Unifloor Sp. z o.o. in liquidation	0	0	0	0
Total	**1,267**	**666**	**272**	**329**

Remuneration paid to the members of the Pfleiderer Grajewo Management Board, including bonuses, in the period January 1st – December 31st 2014:

1.	President of the Management Board	Wojciech Gątkiewicz	PLN 1,407 thousand
2.	Member of the Management Board	Rafał Karcz	PLN 807 thousand
3.	Member of the Management Board	Dariusz Tomaszewski	PLN 805 thousand

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

1.	President of the Management Board	Wojciech Gątkiewicz	PLN 962 thousand
2.	Member of the Management Board	Rafał Karcz	PLN 518 thousand
3.	Member of the Management Board	Dariusz Tomaszewski	PLN 554 thousand

The managerial contract between the Parent and Mr Rafał Karcz, Member of the Management Board, provides, in case of termination of the contract before December 31st 2015, a contractual penalty amounting to a remuneration remaining until December 31st 2015. Contract provides for a 12-month notice period with effect as of the end of calendar half-year.

The managerial contract between the subsidiary Pfleiderer Prospan S.A. and Mr Dariusz Tomaszewski, Member of the Management Board, contains a provision entitling Mr Tomaszewski to receive a one-off termination benefit equal to his one-month remuneration if the contract is terminated by notice.

The managerial contract with Mr Wojciech Gątkiewicz, President of the Management Board, provides, in case of termination of the contract before December 31st 2015, a contractual penalty amounting to a remuneration remaining until December 31st 2015. Contract provides for a 12-month notice period with effect as of the end of calendar half-year.

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

1.	Chairman of the Supervisory Board	Michael Wolff	PLN 210 thousand
2.	Member of the Supervisory Board	Jochen Schapka	PLN 105 thousand
3.	Member of the Supervisory Board	Richard Mayer	PLN 105 thousand
4.	Member of the Supervisory Board	Jan Woźniak	PLN 105 thousand
5.	Member of the Supervisory Board	Gerd Schubert	PLN 53 thousand
6.	Member of the Supervisory Board	Gerd Hammerschmidt	PLN 52 thousand

As at December 31st 2014, the members of the Management and Supervisory Boards of Pfleiderer Grajewo S.A. had no outstanding debt to the Parent under loans.

As at December 31th 2014, Mr Dariusz Tomaszewski, Management Board Member, had outstanding debt of PLN 26 thousand under a loan from subsidiary Pfleiderer Prospan S.A. This liability is related to a loan taken out from the Privatisation Fund in 1997 to finance the acquisition of shares in Pfleiderer Prospan S.A.

10.3. Number of Pfleiderer Grajewo S.A. shares held by the management staff

As at the date of this Report, the Management Board members held the following number of Pfleiderer Grajewo shares.:

- Member 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

Members of the Pfleiderer Grajewo Supervisory Board did not hold any shares in the Parent.

11. Production and sales structure

11.1. Production volume and structure

In 2014 and 2013, the production volumes of the four main product groups at three subsidiaries (Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o.) were as follows:

		Jan 1– Dec 31 2014	Jan 1– Dec 31 2013	change (%)
Gross production of raw chipboards *(finished goods; semi-product to laminated chipboards)*	ths cubic m	1,184	1,111	7%
Laminated chipboards	ths sqm	37,103	35,290	5%
Raw MDF boards *(finished goods; semi-product to lacquered MDF boards)*	ths cubic m	243	226	8%
Lacquered MDF boards	ths sqm	29,926	29,575	1%

In 2014 the production volume increased in each four key product groups. The table above presents percentage change on the previous year.

11.2. Sales volume and structure

Revenue reported by the Group in 2014 was PLN 1,522,819 thousand, up 4% compared to 2013.The share of exports in total sales declined slightly on the previous year (by 3 pp), and accounted for 34% of Group's total sale in 2014.

Revenue by product group was as follows:

By product group	Jan 1– Dec 31 2014	% share (%)
Revenue from sale of products:	**1,451,582**	**95.32%**
Chipboards *(raw boards, laminated boards, fibre mats, MFP)*	792,644	52.05%
MDF boards *(raw MDF, enamelled MDF, fibre mats)*	303,393	19.92%
Glues *(basic resin, specialised resin, formalin)*	258,226	16.96%
Other *(films, foils, edge banding, packaging, and other)*	97,319	6.39%
Revenue from sale of materials	**7,017**	**0.46%**
Revenue from sale of merchandise	**24,152**	**1.59%**
Revenue from rendering of services	**40,068**	**2.63%**
Total sales	**1,522,819**	**100.0%**

Sales volumes of the Pfleiderer Grajewo Group's key products:

Sales by key product groups		Jan 1 Dec 31 2014	Jan 1 Dec 31 2013
Raw chipboard	ths. cubic m	475.1	478.6
Laminated board	ths. sqm	35,503.8	34,156.8
Raw MDF boards	ths. cubic m	156.5	149.7
Lacquered MDF boards	ths. sqm	28,545.6	25,699.5

Revenue by region was as follows:

	Jan 1– Dec 31 2014	Jan 1– Dec 31 2013
Domestic sales	**1,004,167**	**926,045**
- revenue from sale of products	965,094	892,292
- revenue from sale of merchandise and materials	16,185	12,759
- revenue from rendering of services	22,888	20,994
Foreign sales	**518,652**	**536,094**
- revenue from sale of products	486,488	500,622
- revenue from sale of merchandise and materials	14,984	21,139
- revenue from rendering of services	17,180	14,333
Total:	**1,522,819**	**1,462,139**

11.3. Sales of key products by distribution channels, based on sales data for Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o.

The furniture industry continues to be the most important sector for Pfleiderer Grajewo Group as it accounts for 90% of the Group's total sales. The Group takes steps to more effectively place its products on the interior design market. On the other hand, it focuses efforts on expanding its presence on the construction market, which is becoming increasingly more attractive for chipboard manufacturers in Poland.

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

1. direct sales to industrial customers,
2. Sales to the Pfleiderer Partner dealership network (PP network)
3. Export sales

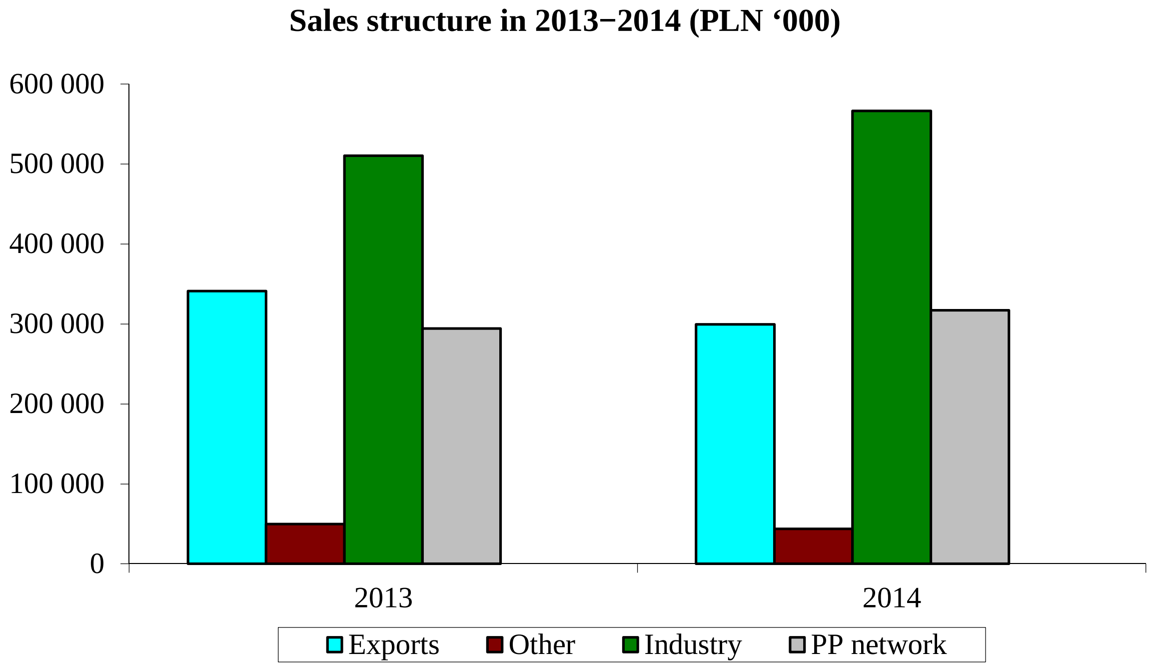


Figure: Sales structure in 2013−2014 (PLN '000)

In the Polish market, direct sales to large and medium-sized furniture manufacturers and the Pfleiderer Partner network continued to represent the most important distribution channels. Compared with the previous year, in 2014 sales to large furniture manufacturers grew by 11%, while the value of sales to the Pfleiderer Partner network increased by 8%. Exports sales decreased by 12% comparing to previous year, which was primarily attributable to lower film sales to the Russian production plant, which had been sold early in 2013 and lower demand on Eastern markets due to instable geopolitical situation. Sales to other domestic distribution channels also declined by 12%.

The shares of individual distribution channels in total sales in 2014 were as follows:

Shares of distribution channels in 2014 sales:

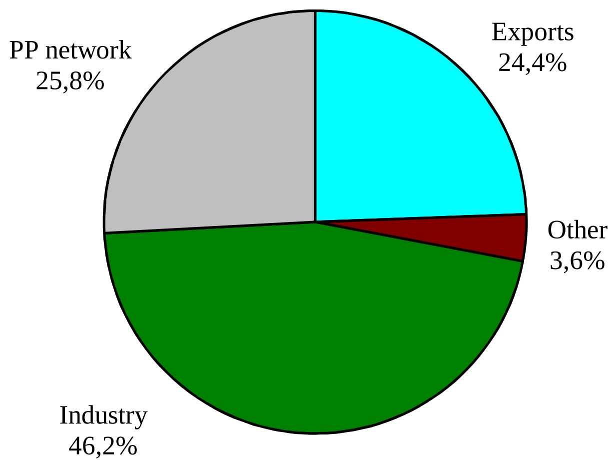


Figure: Sales by distribution channel in 2014 (%)

The year-on-year changes in the shares of individual distribution channels in total sales were as follows:

- The share of direct sales to large and medium-sized furniture manufacturers increased from 42.7% to 46.2%.
- The share of sales to the Pfleiderer Partner network grew up from 24.6% to 25.8%.
- The share of sales through other distribution channels fell down from 4.2% to 3.6%.
- The share of exports declined from 28.5% to 24.4%.

12. Procurement

In 2014, the structure of wood supplies was practically the same as in the previous years. Wood for production was purchased from each plant's traditional sources. Group is not dependent on a single supplier. The value of transactions did not exceed 10% of the total purchases with any of the suppliers in 2014.

The structure of groups of products in the supply of individual plants is slightly different. This is due to production profiles, local market conditions and the current price relationships between different types of raw material.

13. Economic and financial data

The cost of raw materials and consumables continues to be the largest component of the Group's cost structure. Also the cost of services accounts for a significant portion of the cost base at individual Group companies. This follows from the fact that certain auxiliary functions were outsourced and certain types of services were contracted from external companies; also, there has been a gradual growth of transport costs related to product sales and materials procurement. Finance costs are a significant component of profit and loss. This is a result of the large capital expenditure made by the Group. Other items of profit and loss did not materially change relative to the previous periods.

In 2014 and 2013, the Group earned the following sales margins:

	Jan 1– Dec 31 2014	**Jan 1– Dec 31 2013**
Profit before tax / Revenue	8.41%	5.52%
Net profit (attributable to owners of the parent) / Revenue	6.78%	3.76%

The improved ratios are proof of stability of the Group's financial condition. Repayment of bank loans and refinancing in mid-2013 resulted in a significant reduction in the cost of financing which reflected into improved profitability ratios.

14. Use of bank borrowings

	Dec 31 2014	**Dec 31 2013**
Debt under bank borrowings	108,351	154,531
Cash	18,512	16,450
Net debt under bank borrowings	**89,839**	**138,081**

In June 2013, Pfleiderer Grajewo S.A. (the Parent) and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into credit facility agreements which currently continue in force. The total credit limit available under the facilities with four banks amounts to PLN 300,000 thousand and ensures the financial liquidity of the Parent and its subsidiaries.

14.1. 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 thousand, including a PLN 75,000 thousand multi-purpose credit facility agreement and an overdraft facility agreement of up to PLN 25,000 thousand.

At the same time, Pfleiderer Prospan S.A., a subsidiary, entered into an overdraft facility agreement with Bank Millennium S.A., for up to PLN 10,000 thousand.

Moreover, Silekol Sp. z o.o., a subsidiary of the Parent, 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 agreement provides for the repayment of the entire loan after five years from execution of the agreement, while the overdrafts are to be repaid within three years. The facilities are used to finance the borrowers' day-to-day operations.

14.2. Credit facility agreement with Alior Bank S.A.

On June 26th 2013, the Parent entered into a PLN 75,000 thousand 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 within five years from the agreement execution date.

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 thousand, under which the bank granted to the Parent 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. each.

The facility, used to finance the borrowers' day-to-day operations of the borrowers, is repayable within three years from the agreement execution date. 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.

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

On June 26th 3013, the Parent 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 within five years from the agreement execution date.

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 thousand (a joint overdraft limit for all three borrowers).

The facility, intended to secure liquidity and finance capital expenditure, is to be repaid in full within three years from the agreement execution date. Total liabilities of the three borrowers under the two agreements with Bank Zachodni WBK S.A. may not exceed PLN 60,000 thousand.

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

On June 27th 2013, the Parent entered into a PLN 40,000 thousand 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 within five years from the date of execution of the agreement.

14.5. Investment facility agreement with PKO BP S.A.

On January 15th 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 235,022 thousand investment facility agreement with PKO BP S.A. It is a special-purpose facility obtained to finance the construction of the MDF board production plant in Grajewo. As at December 31st 2014, the Group's debt outstanding under this facility was PLN 85,396 thousand (December 31st 2013: PLN 90,801 thousand).

14.6. Multi-purpose facility agreement with PKO BP S.A.

On August 29th 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 65,000 thousand multi-purpose facility agreement with PKO BP S.A. The agreement provides for a PLN 30,000 thousand overdraft facility, a PLN 30,000 thousand revolving working capital facility, and a PLN 5,000 thousand guarantee and letter-of-credit limit. Under an amendment signed on March 23rd 2009, the amount of the multi-purpose facility was reduced to PLN 57,000 thousand. Following execution of the annex, the facility agreement provides for an overdraft facility of PLN 25,900 thousand, a revolving working capital facility of PLN 30,000 thousand, and a guarantee and letter-of-credit limit of PLN 1,100 thousand. Under the amendment, the term of the facility was extended until August 31st 2015. The amount of multi-purpose facility was reduced over the following three years starting from 2011 and as at balance sheet date and currently has a value of PLN 54,000 thousand. As at December 31st 2014, the amount outstanding under the facility was PLN 11,185 thousand.

14.7. Liabilities under borrowings from related parties

As at December 31st 2014 and December 31st 2013, the Group did not carry any liabilities under loans from related parties.

15. Defaults under borrowing agreements where no remedial action was taken before the end of the reporting period

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

16. Feasibility of the Group's investment plans for 2014

The Group continues a long-term investment programme designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity. In 2014, the Pfleiderer Grajewo Group incurred capital expenditure of PLN 113,660 thousand.

16.1. PFLEIDERER GRAJEWO S.A.

Operating investments in 2014: planned: PLN 46,282 thousand realised: PLN 57,524 thousand

Construction of sorting mill for wood shavings	PLN 16,692 thousand
Upgrade of wood waste collection line	PLN 12,093 thousand
Modernisation of storm water and industrial wastewater sewage system	PLN 5,232 thousand
Visual design of sales points	PLN 2,808 thousand
Modernisation of steel belt	PLN 2,305 thousand
Modernisation of burner at dryer	PLN 1,573 thousand
Construction of wood chips handling line	PLN 1,029 thousand
Other investment projects below PLN 1m each	PLN 15,792 thousand

The investment projects planned for 2015 total PLN 26,855 thousand. The programme primarily includes projects designed to reduce costs, optimise production processes and implement new IT systems. The largest projects are:

Start of Phase 3 of upgrade of wood waste collection line	PLN 3,500 thousand
System of removing mineral components from dust for combustion	PLN 1,500 thousand
Continued roll out of visual design at sales points	PLN 2,500 thousand
Implementation of new IT systems	PLN 3,800 thousand

16.2. PFLEIDERER PROSPAN S.A.

Operating investments in 2014: planned: PLN 36,897 thousand realised: PLN 37,969 thousand

Upgrade of wood shavings sorting plant	PLN 10,242 thousand
Upgrade of bunkers at hopper stations	PLN 4,500 thousand
Modernisation of drivers	PLN 2,833 thousand
Modernisation of steel belt	PLN 2,611 thousand
Knife sharpener for wood shavers	PLN 2,000 thousand
Upgrade of grinding line	PLN 1,991 thousand
Modernisation of film warehouse	PLN 1,988 thousand
Other investment projects below PLN 1m each	PLN 11,804 thousand

The investment projects planned for 2015 total PLN 61,751 thousand. The programme primarily includes strategic projects designed to reduce costs and increase production volumes. The most important projects are:

Construction of biomass-fired boiler room	PLN 25,911 thousand
Modernisation of kitchen worktop laminating line	PLN 22,000 thousand
Modernisation of insulation on heating trays	PLN 1,600 thousand
Modernisation of control system	PLN 1,000 thousand

16.3. SILEKOL Sp. z o.o.

Operating investments in 2014: planned: PLN 4,054 thousand realised: PLN 10,369 thousand

Extension and modernisation of formalin unit	PLN 5,155 thousand
Implementation of new technology for resin production	PLN 1,447 thousand
Other investment projects below PLN 1m each	PLN 3,767 thousand

The investment projects planned for 2015 total PLN 2,880 thousand.

16.4. PFLEIDERER MDF Sp. z o.o.

Operating investments in 2014: planned: PLN 26,909 thousand realised: PLN 7,779 thousand

Modernisation of steel belt	PLN 2,158 thousand
Painting line (end-of-lease purchase)	PLN 1,235 thousand
Other investment projects below PLN 1m each	PLN 4,386 thousand

The investment plan for 2014 provided for the execution of an investment programme consisting in the purchase of four installations (new painting line, panel saw, grinder, and packaging line), designed to increase the profitability of the product offering. The execution of the programme has been postponed, and the programme is currently being reassessed.

The investment projects planned for 2015 total PLN 16,999 thousand, and include mainly restructuring projects designed to improve cost and production efficiency. The largest planned investment projects comprise:

Replacement of technological line parts	PLN 6,700 thousand
Painting line wastewater treatment system	PLN 1,399 thousand

17. Marketing activities in 2014

Marketing objectives:

- Positioning Pfleiderer as a premium brand;
- Enhancing the Pfleiderer brand recognition among architects, designers and end users;
- Strengthening the Pfleiderer Group's position in the investment market;
- Strengthening Pfleiderer Group's position in local markets;
- Strengthening the Pfleiderer Group's position in the construction market.

17.1. Objectives achieved in the furniture and interior design market

a) Product policy

- Market launch of new collection of decors, laminated chipboard and kitchen worktops;
- Launch of the decor project with Oskar Zięta and Piotr Kuchciński;
- Market launch of the new line of Duropal high-pressure laminates;
- Continued development of new products while reducing the number of slow-moving products; active management of the product portfolio.

b) Communications policy

- Intensification of PFL's/Pfleiderer's communication with the market;
- Enhanced internal and external visual presence of the Pfleiderer Partner sales network domestically and in selected exports markets;
- Organisation of training courses for the sales force employed by the Pfleiderer Partner network;
- Support of advertising activities of the Pfleiderer Partner network domestically and internationally;
- Product displays at the Pfleiderer Partner's domestic and international customers;
- Enhanced presence of pattern books on the domestic and foreign markets;

- Direct distribution of marketing materials among domestic customers of the Pfleiderer Partner network;
- Participation in regional fairs and events organised by the Pfleiderer Partner network in Poland and abroad;
- Use of public transport vehicles, both domestically and internationally, as carriers for kitchen worktop advertising campaigns;
- Billboard campaigns;
- Intensification of advertising and PR activities designed to promote Pfleiderer kitchen worktops in the press and on the Internet;
- Organisation of meetings with key customers from both domestic and exports markets;
- Active promotion of the Pfleiderer brand and products in social media;
- Participation in architecture and design events, such as the Łódź Design Festival and the Night with Design in Wrocław, and display of solutions for furnishings and interior design markets in the largest urban centres (in cooperation with VIRTUS).
- Promotion of new items in the Pfleiderer product range fitted in the finished furniture products presented at the MEBLE furniture industry fair in Poznań; Pfleiderer's conference at the Arena Design trade fair;
- Active PR efforts and advertising initiatives focused mainly on presenting inspiring solutions for home interiors and general public buildings;
- Cooperation with higher education institutions: the University of Arts of Poznań and the ASP Academy of Fine Arts of Wrocław;
- Using the Company's quarterly press conference devoted to the presentation of financial results as an opportunity to meet members of the press (both financial and general-interest magazines as well as interior-design and other trade magazines.

17.2. Activities in the construction market

a) Product policy

- Preparation for the market launch of the mfp Clima Face board.

b) Communications policy

- Intensive promotion of the new mfp® construction board brand in the contractor, investor and end-user segments of the market;
- Participation in regional construction fairs, such as those organised by the PSB Group;
- Organisation of regional training courses for retailers and contractors;
- Promotional campaign for the mfp® board;
- Organisation of meetings with the Company's customers;
- Continuation of activities designed to enhance brand's visual presence at retail outlets;
- Development of a joint product catalogue with partner company – presentation of solutions for the construction industry

The overall expenditure of these activities in the furniture, interior design and construction market was financed from marketing budgets.

18. Material related-party transactions in 2014

Information on material transactions executed with related parties is presented in Note 29 to the Pfleiderer Group's annual consolidated financial statement

In 2014, the Group did not execute any related-party transactions other than on an arms' length basis.

19. Management of Pfleiderer Grajewo Group's financial resources in 2014

Financial resources management involves borrowing arrangement, which is used to finance working capital, current operations, investment and cash management.

Proper management of financial resources is a factor supporting the implementation of other management areas, including operational management, strategic and investment projects. This is done in the first place through regular financial projections, including projections of debt in the horizon of five years, and then arranging the appropriate sources of funding, in the form of bank loans, bonds and factoring. Cash Management Group Pfleiderer Grajewo aims at optimizing the financial costs by minimizing cash and devoting cash surpluses to repay bank loans, which may at any time be re-used. The second cash management objective is to reduce the currency risk to which the Group due to the large export and import is exposed.

In 2014, Parent Company Pfleiderer Grajewo S.A. and subsidiaries financed all relevant projects by the use in the first place surplus generated from operating activities, using bank loans, factoring and bond issues (internal financing where the issuer is Pfleiderer Grajewo S.A. and investor is Pfleiderer Prospan S.A.)

19.1. Notes

As at December 31st 2014, the par value of the Parent's debt under notes in issue totalled PLN 279,300 thousand. The notes are used to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

19.2. Bank borrowings

In June 2013, Pfleiderer Grajewo S.A. (the Parent) and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into currently binding credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000 thousand and ensures the financial liquidity of the Parent and its subsidiaries. For detailed information on the Group's existing debt, see section 14 to this consolidated Directors' Report.

As at December 31st 2014, debt outstanding under the bank borrowings taken out by the Group totalled PLN 108,351 thousand.

19.3. Borrowings from related parties

As at December 31st 2014, the Group did not carry any loans from related parties.

The Group maintains a comprehensive payment capacity and high credibility in the assessment of strategic lenders. In view of the above, even taking into account the possible deterioration of the macroeconomic situation, Management Board believes that there are no risks that could lead to a material deterioration or loss of liquidity.

For detailed information on all liabilities under bank borrowings and other debt instruments as well as contingent liabilities and security instruments as at December 31st 2014, see Note 21 and Note 28, respectively, to the consolidated financial statements of the Pfleiderer Grajewo Group.

20. Financial instruments

20.1. Derivatives

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

In 2014, the Parent executed 33 forward contracts for the total amount of EUR 33,000 thousand. As at December 31st 2014, Pfleiderer Grajewo S.A. held 30 open EUR/PLN FX forward contracts for the sale of EUR 65,080 thousand with settlement dates falling between January 29th 2015 and December 29th 2016. As at the reporting date, these transactions were measured at PLN 1,213 thousand (fair value – level 2).

Additionally, in 2014, the subsidiary Silekol Sp. z o.o. executed 6 forward contracts for the total amount of EUR 11,400 thousand. As at December 31st 2014, it held 3 open FX forward contracts for the sale of a total of EUR 5,800 thousand with settlement dates falling before the end of March 2015. As at the reporting date, the valuation of these transactions was negative at PLN 394 thousand (fair value – level 2).

According to IAS 39, if a cash flow hedge is effective, any gain or loss on the hedging instrument relating to the effective portion of the hedge should be recognised in other comprehensive income under equity, whereas any gain or loss relating to the ineffective portion should be recognised in profit or loss for current period.

As at December 31st 2014, no other subsidiaries were counterparties under derivative contracts.

20.2. Guarantees, sureties and security provided by the Group

As at December 31st 2014, the Group had the following contingent liabilities and security:

20.2.1. Mortgage over properties and registered pledge over plant and equipment:

A mortgage on properties and a registered pledge over plant and equipment serve as security for an investment credit facility granted to Pfleiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose facility obtained to finance the construction of the new MDF board production plant in Grajewo. The mortgage secures a liability of up to PLN 356,860 thousand. The registered pledge over plant and equipment secures liabilities of up to PLN 450,000 thousand and was created over a changing set of assets owned by Pfleiderer MDF Sp. z o.o. The pledge is reviewed on a quarterly basis to take account of changes in the subsidiary's movable assets (plant and equipment, vehicles).

As at December 31st 2014, the Group's debt under the facility totalled PLN 85,396 thousand.

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

A mortgage of up to PLN 80,000 thousand created on the property located at ul. Wiórowa 1, Grajewo, on which the MDF plant is situated, serves as security for a multi-purpose credit facility for the total amount of PLN 57,000 thousand, granted to Pfleiderer MDF Sp. z o.o., a member of the Pfleiderer Group, by PKO Bank Polski S.A. on August 29th 2007.

The pledge was created under an agreement on registered pledge over assets, dated July 30th 2010, concluded between Pfleiderer MDF Sp. z o.o. and PKO Bank Polski S.A. of Warsaw. The pledge, with the maximum security amount of PLN 83,163 thousand, was created for the benefit of PKO Bank Polski S.A. to secure claims under a PLN 57,000 thousand multi-purpose credit facility granted to Pfleiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on the basis of an agreement of August 29th 2007. The pledge was created after the facility repayment date had been postponed until August 31st 2015. 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 December 31st 2014, the Group's debt under the facility totalled PLN 11,185 thousand.

20.2.3. Mutual sureties granted within the Group

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

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

a) Pfleiderer Grajewo S.A., the Parent, issued six sureties for a total amount of up to PLN 65,752 thousand.

   As at December 31st 2014, the amount of underlying debt secured with the sureties was PLN 5,373 thousand.

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

- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of credit facilities extended to Pfleiderer Grajewo S.A. by Bank Millennium S.A. under an agreement of June 26th 2013,
- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of credit facilities extended to Pfleiderer Grajewo S.A. by Alior Bank under an agreement of June 26th 2013.

As at December 31st 2014, the amount of underlying debt secured with the sureties was PLN 8,424 thousand.

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

- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of credit facilities extended to Pfleiderer Grajewo S.A. by Bank Millennium S.A. under an agreement of June 26th 2013,
- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of credit facilities extended to Pfleiderer Grajewo S.A. by Alior Bank under an agreement of June 26th 2013.

As at December 31st 2014, the amount of underlying debt secured with the sureties was PLN 9,045 thousand.

The credit facilities are secured with a mortgage on developed properties, i.e. the Parent'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.

Other Group subsidiaries did not issue any sureties or guarantees.

20.2.4. Loans granted

As at 31 December 2014 3Spare Sp z o.o. liabilities to Pfleiderer Prospan SA amounted to PLN 7,347 thousand (PLN 7,000 thousand is principal amount, PLN 347 thousand is interest for 2014). In the period January 1, 2014 r. To 31 December 2014. Pfleiderer Prospan SA accrued PLN 347 thousand interest on the loan. On 12 January 2015 Pfleiderer Prospan SA received from 3Spare Sp. z o.o PLN 347 thousand as payment of interest on the loan. In addition, on 30 January 2015 Pfleiderer Prospan S.A. received from 3Spare Sp. z o.o PLN 2,000 thousand as part of the loan repayment.

21. Financial risks related to the Group's operations

21.1. Objectives and methods of financial risk management applied by the Pfleiderer Grajewo 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,
- currency risk,
- liquidity risk,
- interest rate risk.

The objective behind credit risk management is to reduce the Group's losses which could follow from customers' insolvency. This risk is mitigated with the use of receivables insurance and factoring services.

The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position from the point of view of cash flows. To manage its currency risk, it first relies on natural hedging and where necessary uses forward contracts. The time horizon adopted for position monitoring and hedging transactions is up to 24 months.

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

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

21.2. Credit risk

Transactions which expose the Pfleiderer Grajewo Group companies to credit risk concern trade receivables and loans granted. The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and full factoring. In 2014, over 90% of the Group's trade receivables were secured in this way. In the event of insolvency of customers who have insurance coverage, compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

A subsidiary Pfleiderer Prospan S.A. has loan receivables from one entity: 3 Spare Sp. z o.o., secured by a registered pledge on movable property to the amount of PLN 8.8 million and a promissory note limited to the value of the debt.

21.3. Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings. The interest rate risk is related to interest payments under borrowings with floating interest rates. The Group does not hedge the interest rate risk. The Group monitors the level of interest costs in relation to EBIDTA.

21.4. Currency risk

Foreign currency transactions relate both to purchases of raw materials and sale of goods. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses are partly offset. Furthermore, the Group makes capital expenditure in foreign currencies, and therefore it monitors its foreign currency positions on an ongoing basis and hedges open positions – first, through natural hedging (that is through carefully selecting currencies for contracts), and second, through forward and swap transactions. The Group monitors its currency risk exposure in terms of cash flows rather than profit or loss.

In 2014, the Pfleiderer Grajewo Group entered into a number of EUR/PLN forward contracts to hedge against currency risk related to planned trade transactions.

As at December 31st 2014, Pfleiderer Grajewo S.A. held 30 open EUR/PLN FX forward contracts for the sale of EUR 65,080 thousand with settlement dates falling between January 29th 2015 and December 29th 2016. As at the reporting date, these transactions were measured at PLN 1,213 thousand.

As at December 31st 2014, the subsidiary Silekol Sp. z o.o. held 3 open FX forward contracts for the sale of EUR 5,800 thousand with settlement dates falling before the end of March 2015. As at the reporting date, these transactions were measured at negative PLN 394 thousand.

21.5. Price risk associated with financial instruments

The Group is not exposed to any material price risk associated with financial instruments.

21.6. Liquidity and material cash-flow disruptions risk

Parent and subsidiaries companies are protected against any material cash-flow disruptions thanks to credit facilities available at any time. Material cash-flow disruptions are also unlikely due to customer diversification. All extraordinary expenditure is always planned well ahead and accounted for in the liquidity management process.

The Group monitors its liquidity on an ongoing basis. both with respect to short-term liquidity (a few days forward) and long-term liquidity (a few years forward).

Structure of assets, equity and liabilities disclosed in the consolidated balance sheet:

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	Current assets / Current liabilities	Current assets - inventories / Current liabilities	Average trade and other receivables / Net revenue / 360	Average trade and other payables / Net revenue / 360	Average inventories / Net revenue / 360
Dec 31 2014	1.15	0.51	28 days	53 days	42 days
Dec 31 2013	0.99	0.45	22 days	54 days	43 days

As at December 31st 2014, the Pfleiderer Grajewo Group had debt under bank borrowings of PLN 108,351 thousand. It also had unused credit facilities of PLN 320,867 thousand. The Group also held cash of PLN 18,512 thousand.

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.

22. Court proceedings

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

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

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

23. Material settlements under court proceedings

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

24. Corrections of errors of past periods

In 2014, the Group did not correct any errors of past periods.

25. Corporate governance

Appointment and removal of the management staff

Pursuant to the Parent's Articles of Association, the Management Board members are appointed and recalled by Parent's Supervisory Board. The Articles of Association and resolutions of the Parent's General Meeting do not provide for any special powers for the Management Board members with respect to making decisions on the issue or repurchase of shares.

Parent's management bodies

The Parent's Management Board must consist of at least two members. Members of the Management Board are appointed for a joint five-year term of office. The Supervisory Board appoints the President of the Management Board and, upon his/her request, the other members of the Management Board. The Management Board exercises all powers in the scope of managing the Parent's operations with the exception of powers reserved for the Parent's other governing bodies under law or the Parent's Articles of Association. The proceedings of the Management Board and the matters assigned to individual members of the Management Board are defined in detail in the Rules of Procedure of the Management Board, adopted by the Parent's Management Board and approved by the Supervisory Board.

The General Meeting appoints the members of the Supervisory Board. The Supervisory Board must consist of five, seven or nine members. Members of the Supervisory Board are appointed for a joint five-year term of office. The Supervisory Board supervises the Parent's activities and operations. The powers of the Supervisory Board are defined in the Articles of Associations and in law, including the Commercial Companies Code. The Supervisory Board adopts its rules of procedure, which define operations of the Supervisory Board in detail.

Amendments to the Parent's Articles of Association

The Articles of Association of the Parent are amended in line with the procedure specified in the Commercial Companies Code. No special provisions with respect to this practice are set forth in the Parent's Articles of Association.

Proceedings of the Parent's General Meeting

The General Meeting of the Parent has the powers specified in the Commercial Companies Code and the Articles of Association. The proceedings of the General Meeting are governed by the Articles of Association and the Rules of Procedure of the General Meeting, available on the Parent's web site.

Shares in the Parent

The Parent has not issued any securities conferring special control powers. In addition, there are no limitations on the exercise of voting rights attached to the shares issued by the Parent. Also, there exist no rights related to the securities issued by the Parent which would be separate from the ownership of the securities.

Neither the Articles of Association of the Parent, nor the Parent's other internal regulations provide for any restrictions on the transferability of the Parent shares. Therefore, transfer of ownership of the Parent shares is subject only to the limitations imposed by the applicable laws and the stock-exchange regulations.

Financial statements of the Parent and the Group

The Parent's financial statements are prepared by a separate organisational unit. All financial statements are reviewed, verified and approved at several levels at the Company, which significantly minimizes risks related to financial reporting.

The Pfleiderer Grajewo Management Board declares that the Parent complies with the corporate governance rules contained in the Code of Best Practice for WSE Listed Companies, appended to the

WSE Supervisory Board Resolution No. 19/1307/2012, dated November 21st 2012, with the exception of the following rules, which the Group does not apply:

Rule I.12

The Group should enable its shareholders to exercise the voting right during a General Meeting either in person or through a proxy, outside the venue of the General Meeting, using electronic communication means.
Pfleiderer Grajewo S.A. does not comply with this rule given the small number of shareholders attending the Parent's General Meetings. In the opinion of the Pfleiderer Grajewo Management Board, non-compliance with the above rule does not adversely affect the shareholders' ability to participate in the Company's General Meetings.

Rule III.6

At least two members of the Supervisory Board should meet the criteria of being independent from the Company and entities with significant connections with the Company. The independence criteria should be applied under Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the Annex, a person who is an employee of the company, its subsidiary or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.

Pfleiderer Grajewo S.A. does not observe this rule. Instead, it ensures that an independent member serves on the Supervisory Board as specified below:

In accordance with the Parent's Articles of Association, at least one member of the Supervisory Board consisting of five members, two members of the Supervisory Board consisting of seven members, and three members of the Supervisory Board consisting of nine members must be independent and satisfy the following criteria:

- they are not members of the governing bodies of Pfleiderer Grajewo S.A.'s parent or of such parent's subsidiaries,
- they are not employed by Pfleiderer Grajewo S.A.'s parent or by such parent's subsidiaries,
- they are not relatives (a spouse, direct descendant or direct ascendant) of a member of the governing bodies of Pfleiderer Grajewo S.A. or Pfleiderer Grajewo S.A.'s parent.

Rule IV.10

The Group should enable its shareholders to participate in a General Meeting using electronic communication means through:

1) real-life broadcast of General Meetings,
2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.

Pfleiderer Grajewo S.A. does not comply with this rule given the small number of shareholders attending the Parent's General Meetings. In the opinion of the Pfleiderer Grajewo Management Board, non-compliance with the above rule does not adversely affect the shareholders' ability to participate in the Company's General Meetings.

26. Auditor

The separate and consolidated financial statements are audited and reviewed on the basis of the decision made by the General Meeting on June 23rd 2010 on appointment of the auditor. Pursuant to the resolution, the following entity was appointed the auditor:

KPMG Audyt Spółka z o.o. spółka komandytowa,

ul. Chłodna 51,
00-867 Warszawa, Poland

The financial statements were audited pursuant to the agreement executed between KPMG and Pfleiderer Grajewo S.A.

The agreement, dated April 14th 2014, provided for the review of the interim group reporting package for Q1 2014. The fee due to KPMG under the Agreement was PLN 45 thousand. The agreement, dated 3 July 2014, provided for the review of the interim stand alone and consolidated financial statements of Pfleiderer Grajewo S.A., the Parent, and the group reporting package of the Pfleiderer Grajewo Group. The fee due to KPMG under the Agreement was PLN 73 thousand. The most recent agreement with KPMG, dated October 8th 2014, provided for an audit of the annual stand alone and consolidated financial statements of Pfleiderer Grajewo S.A. and annual group reporting package of the Pfleiderer Grajewo Group for the financial year ended December 31st 2014, prepared in accordance with the IFRS. The fee due to KPMG under the agreement is PLN 193 thousand.

The total fee for the audits specified above will amount to PLN 311 thousand (PLN 302 thousand for the previous financial year).

27. Audit Committee

All duties of an audit committee were assigned to the Pfleiderer Grajewo Supervisory Board.

28. Non-recurring events affecting the Group's financial performance

No non-recurring events which might affect the Pfleiderer Grajewo Group's financial performance occurred in 2014.

29. Changes in the composition of the Parent's Management Board

In the 12 months ended December 31st 2014, no changes took place in the composition of the Parent's Management Board.

On February 16th 2015, the Supervisory Board of Pfleiderer Grajewo S.A.:

- appointed Mr Michael Wolff President of the Parent's Management Board,
- appointed Mr Gerd Schubert Member of the Management Board, Chief Operating Officer,
- recalled Mr Wojciech Gątkiewicz from the position of President of the Management Board, and appointed him as the Member of the Management Board, Transformation Director.

As at this Report's date, the Parent's Management Board consisted of:

1. Michael Wolff	President of the Management Board
2. Rafał Karcz	Member of the Management Board
3. Gerd Schubert	Member of the Management Board
4. Wojciech Gątkiewicz	Member of the Management Board
5. Dariusz Tomaszewski	Member of the Management Board

30. Changes in the composition of Parent's Supervisory Board

In the 12 months ended December 31st 2014, the following changes took place in the composition of the Parent's Supervisory Board:

1. On June 23rd 2014, Mr Gerd Hammerschmidt resigned from the position of Member of the Supervisory Board of Pfleiderer Grajewo S.A. effective from June 29th 2014.
2. On June 30th 2014, Mr Gerd Schubert was appointed as a new member of the Parent's Supervisory Board.

The following changes in the composition of the Supervisory Board took place after December 31st 2014:

1. On January 30th 2015, pursuant to a resolution of the Parent's Extraordinary General Meeting, Mr Michael Wolff was recalled from the position of Chairman of the Supervisory Board, and Mr Gerd Schubert was recalled from the position of Member of the Supervisory Board.
2. On January 30th 2015, pursuant to the resolution of the Parent's Extraordinary General Meeting Mr Paolo G. Antonietti and Mr Michael F. Keppel was appointed to the Supervisory Board.

On February 16th 2015 the Supervisory Board appointed Mr Paolo G. Antonietti for a position of Chairman of Supervisory Board and Mr. Michael F. Keppel for a position of Vice Chairman of the Supervisory Board.

As at this Report's date, the Supervisory Board consisted of:

1.	Paolo G. Antonietti	Chairman of the Supervisory Board
2.	Michael F. Keppel	Deputy Chairman of the Supervisory Board
3.	Jochen Schapka	Member of the Supervisory Board
4.	Richard Mayer	Member of the Supervisory Board
5.	Jan Woźniak	Member of the Supervisory Board

31. Other activities of the Group

On 9 January 2014 Silekol Sp. z o.o., the subsidiary of Pfleiderer Grajewo S.A. signed an agreement with Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. for the supply of urea, which Silekol Sp. z o.o uses as a key raw material in the manufacture of adhesive amino resins. The agreement has been concluded for a period of five years, and the total value of urea to be supplied throughout its term is estimated at PLN 694.2 million.

Moreover on 9 January 2014 Silekol Sp. z o.o., the subsidiary of Pfleiderer Grajewo S.A. signed an agreement with Grupa Azoty Zakłady Azotowe Puławy S.A. for the supply of urea, which Silekol Sp. z o.o uses as a key raw material in the manufacture of adhesive amino resins. The agreement has been concluded for a period of five years, and the total value of urea to be supplied throughout its term is estimated at PLN 216.4 million.

Pfleiderer MDF Sp. z o.o., the entity operating in special economic zone sought the cancellation of a decision permitting the activity in the zone till 1 September 2016 and thus applied to extend the activities in the area till the end of the zone activity. On 10 November 2014 the entity received a favourable decision of the Minister of Economy in this respect. As a result permission to operate in the zone expires at the end of the period for which special economic the zone was established, which is currently till 31 December 2026 year. The consequence of extending the permission is actualization of the government grant value due to exemption from corporate income tax. The government grant increased by PLN 62 662 thousand. The amount is quantification of tax that, it is estimated, will not be paid due to extended operating in the special economic zone (see note 15 to the consolidated annual financial statements).

On December 30th 2014, Pfleiderer Grajewo S.A., the Parent, and its subsidiaries Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o., as the supplier, and Fabryki Mebli Forte S.A. of Ostrów Mazowiecka, as the customer, executed an agreement for the supply of wood-based boards.

The Agreement was concluded for the period from January 1st 2015 to December 31st 2016. The Agreement provides for the supply of raw and laminated chipboards, as well as raw and varnished HDF boards. The total value of deliveries to be made under the Agreement is estimated at EUR 71,000 thousand (PLN 306,280 thousand). The selling price of wood-based boards will be determined according to the pricing formula set out in the Agreement, based on the prices of key raw materials used in the production of such boards.

Events subsequent to the end of the reporting period

After December 31st 2014 there were changes in composition of Management Board and Supervisory Board of the Parent Company Pfleiderer Grajewo S.A. Detail description of the changes has been presented in paragraphs 29 and 30 of this report.

On 12 February 2015. Parent Company received, in accordance with the terms of the agreement, the remaining part of receivables from the sale of Russian units, consequently transaction was finally closed.

Economic forecast for the foreseeable future

Given the current economic climate, the Group will refrain from publishing its forecast for 2015 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

Management Board of Pfleiderer Grajewo S.A. **Grajewo, March 18th 2015**

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director