POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2013

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 2013, covering the period from January 1st to December 31st 2013,

including consolidated financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: April 30th 2013

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)

	PLN '000		EUR '000	
FINANCIAL HIGHLIGHTS	**2013**	**2012**	**2013**	**2012**
I. Sales revenue	1 462 139	1 432 282	347 219	343 177
II. Operating profit/(loss)	108 738	73 134	25 822	17 523
III. Profit/(loss) before tax	80 680	18 321	19 159	4 390
IV. Net profit	167 558	36 285	39 791	8 694
V. Net profit attributable to equity holders of the parent	152 541	49 815	36 224	11 936
VI. Net cash provided by (used in) operating activities	126 746	228 058	30 099	54 643
VII. Net cash provided by (used in) investing activities	552 144	-27 723	131 119	-6 642
VIII. Net cash provided by (used in) financing activities	-679 958	-192 646	-161 472	-46 158
IX. Total net cash flow	-1 068	7 689	-254	1 842
X. Total assets	1 118 793	1 807 032	269 771	442 012
XI. Liabilities	466 518	1 221 867	112 490	298 877
XII. Non-current liabilities	134 647	225 978	32 467	55 276
XIII. Current liabilities	331 871	995 889	80 023	243 601
XIV. Equity	652 275	585 165	157 281	143 135
XV. Share capital	16 376	16 376	3 949	4 006
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)	3,07	1,00	0,73	0,24
XIX. Diluted earnings per ordinary share (PLN/EUR)	3,07	1,00	0,73	0,24
XX. Book value per share (PLN/EUR)	13,14	11,79	3,17	2,88
XXI. Diluted book value per share (PLN/EUR)	13,14	11,79	3,17	2,88
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
April 30th 2014	Wojciech Gątkiewicz	President of the Management Board	
April 30th 2014	Rafał Karcz	Member of the Management Board, Chief Financial Officer	
April 30th 2014	Dariusz Tomaszewski	Member of the Management Board, Sales Director	

SIGNATURE OD THE PERSON RESPONSIBLE FOR ACCOUNT KEEPING			
Date	First name and surname	Position	Signature
April 30th 2014	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 2013

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 2013

OPINION OF THE INDEPENDENT AUDITOR

KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.
ul. Chłodna 51
00-867 Warszawa
Poland

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

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 2013, 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 2013 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

....
Mirosław Matusik
Key Certified Auditor
Registration No. 90048
Limited Liability Partner with power of attorney

25 April 2014

REPORT OF THE INDEPENDENT AUDITOR

TRANSLATION

Pfleiderer Grajewo S.A. Group

Supplementary report on the audit of the consolidated financial statements Financial Year ended 31 December 2013

The supplementary report contains 11 pages
The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013

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

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 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 2013, 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.

On 26 June 2013 Mr. Radosław Wierzbicki resigned from the position of Member of the Management Board.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2013, 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.

Jointly controlled entities (equity accounted investees):

- Blitz 11-446 GmbH.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2013, as a result of the Parent Company acquiring a controlling interest:

- Grajewo OOO – subject to consolidation for the period from 16 April 2013 to 31 December 2013.

The following subsidiaries were consolidated until the date control by the Parent ceased:

- Pfleiderer OOO – subject to consolidation for the period from 1 January 2013 to 23 January 2013,

- Pfleiderer MDF OOO – subject to consolidation for the period from 1 January 2013 to 23 January 2013.

1.2.2 Entities excluded from consolidation

As at 31 December 2013, the following subsidiaries of the Group were not consolidated:

- Pfleiderer Services Sp. z o.o.

The entity was excluded from consolidation due to the fact that the result of its operation and financial position were insignificant in relation to that of the Group.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Mirosław Matusik
Registration number:	90048

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 2012 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 28 June 2013.

The consolidated financial statements were submitted to the Registry Court on 11 July 2013.

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 2013, 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 9 July 2013, 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 25 November 2013 to 29 November 2013 and from 20 January 2014 to 31 January 2014 and additional procedures have been performed outside the Parent Company's head office in the later period.

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 2013 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unqualified 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, Warsaw	31 December 2013	unqualified audit opinion
Silekol Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k, Warsaw	31 December 2013	unqualified audit opinion
Pfleiderer MDF Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k, Warsaw	31 December 2013	unqualified audit opinion
Jura Polska Sp. z o.o.	Polska Grupa Audytorska Sp. z o.o. sp.k.	31 December 2013	unqualified audit opinion
Unifloor Sp. z o.o. in liquidation	not audited	31 December 2013	not audited
Blitz 11-446 GmbH	not audited	31 December 2013	not audited
Grajewo OOO	not audited	31 December 2013	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	31.12.2013 PLN '000	% of total	31.12.2012 PLN '000	% of total
Non-current assets				
Property, plant and equipment	623,837	55.8	583,660	32.3
Intangible assets	1,607	0.1	2,218	0.1
Goodwill	107,829	9.6	107,829	6.0
Investments in subsidiaries	52	-	117	-
Other long-term investments	18,738	1.7	10	-
Investment property	3,995	0.4	4,300	0.2
Deferred tax assets	14,652	1.3	12,184	0.7
Advances paid on fixed assets	5,578	0.5	5,426	0.3
Government grant receivables	14,627	1.3	14,443	0.8
Total non-current assets	790,915	70.7	730,187	40.4
Current assets				
Inventories	177,692	15.9	174,803	9.7
Income tax receivable	21,110	1.9	261	-
Trade receivables and other	112,310	10.0	70,356	3.9
Cash and cash equivalents	16,450	1.5	17,518	1.0
Other short term financial assets	216	-	-	-
Fair value of hedging instruments	100	-	-	-
Group of asset held for sale or disposal	-	-	813,907	45.0
Total current assets	327,878	29.3	1,076,845	59.6
TOTAL ASSETS	1,118,793	100.0	1,807,032	100.0

EQUITY AND LIABILITIES	31.12.2013 PLN '000	% of total	31.12.2012 PLN '000	% of total
Equity				
Share capital	16,376	1.5	16,376	0.9
Share premium	289,806	25.9	289,806	16.0
Reserve capital	207,809	18.6	195,806	10.9
Revaluation reserve	619	-	619	-
Foreign currency differences on translating foreign operation	(84)	-	(14,292)	0.8
Foreign currency differences on net investments	-	-	(3,829)	0.2
Retained earnings	137,749	12.3	42,906	2.4
Total equity attributable to equity holders of the parent	652,275	58.3	527,392	29.2
Non-controlling interest	-	-	57,773	3.2
Total equity	652,275	58.3	585,165	32.4
Liabilities				
Loans and borrowings	86,801	7.7	182,650	10.1
Employee related payables	8,020	0.7	7,111	0.4
Provisions	786	0.1	739	-
Deferred tax liabilities	9,700	0.9	8,245	0.5
Deferred income due from government grants	29,340	2.6	27,233	1.5
Total non-current liabilities	134,647	12.0	225,978	12.5
Loans and borrowings	67,730	6.1	528,448	29.3
Income tax payable	500	-	1,136	-
Trade and other payables	240,260	21.5	197,112	10.9
Provisions	22,032	2.0	18,736	1.0
Liabilities associated with the group of assets held for sale/disposal	-	-	249,309	13.8
Deferred income due from government grants	1,349	0.1	1,148	0.1
Total current liabilities	331,871	29.7	995,889	55.1
Total liabilities	466,518	41.6	1,221,867	67.6
TOTAL EQUITY AND LIABILITIES	1,118,793	100.0	1,807,032	100.0

2.1.2. Consolidated statement of comprehensive income

Statement of comprehensive income (by function)

	01.01.2013 - 31.12.2013 PLN '000	% of total sales	01.01.2012 - 31.12.2012 PLN '000 (*)	% of total sales
CONTINUING OPERATIONS				
Revenue	1,462,139	100.0	1,432,282	100.0
Cost of sales	(1,200,057)	82.1	(1,204,875)	84.1
Gross profit on sales	***262,082***	***17.9***	***227,407***	***15.9***
Other operating income	8,802	0.6	19,089	1.3
Distribution expenses	(94,260)	6.4	(96,123)	6.7
General and administrative expenses	(64,157)	4.4	(65,596)	4.6
Other operating expenses	(3,728)	0.3	(11,643)	0.8
Results from operating activities	***108,739***	***7.4***	***73,134***	***5.1***
Financial income	3,479	0.2	31,679	2.2
Financial expenses	(31,538)	2.1	(86,492)	6.0
Net financing costs	**(28,059)**	**1.9**	**(54,813)**	**3.8**
Profit before tax	***80,680***	***5.5***	***18,321***	***1.3***
Income tax expense	(10,639)	0.7	(1,242)	0.1
Net profit from continuing operations	***70,041***	***4.8***	***17,079***	***1.2***
DISCONTINUED OPERATIONS				
Profit from discontinued operation (net of income tax)	97,517	6.7	19,206	1.3
Profit for the period	***167,558***	***11.5***	***36,285***	***2.5***
OTHER COMPREHENSIVE INCOME				
Foreign currency differences on translating foreign operation	14,163	1.0	(9,590)	0.7
Foreign exchange translation differences from net investment	3,829	0.2	(8,011)	0.5
Other comprehensive income for the period	***17,992***	***1.2***	***(17,601)***	***1.2***
Total comprehensive income for the period	***185,550***	***12.7***	***18,684***	***1.3***
Profit attributable to:				
Shareholders of the Company	152,541	10.5	49,815	3.5
Non controlling interests	15,017	1.0	(13,530)	1.0
Profit	**167,558**	**11.5**	**36,285**	**2.5**
Total comprehensive income attributable to:				
Shareholders of the Company	170,578	11.7	32,351	2.3
Non controlling interests	14,972	1.0	(13,667)	1.0
Total comprehensive income for the period	**185,550**	**12.7**	**18,684**	**1.3**
Earnings per share				
Basic and diluted earnings per share (PLN)	3.07	-	1.00	-

(*) data restated

2.2 Selected financial ratios

	2013	2012 (*)	2011
1. Return on sales			
net profit from continuing operations x 100% / net revenues	4.8%	1.2%	negative value
2. Return on equity			
net profit x 100% / equity - net profit	34.6%	6.6%	negative value
3. Debtors turnover			
average trade receivables (gross) x 365 days / net revenues	19 days	23 days	32 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	41.7%	67.6%	73.2%
5. Current ratio			
current assets / current liabilities	1.0	1.1	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 and calculation of non-controlling interest

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.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

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. 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

....
Mirosław Matusik
Key Certified Auditor
Registration No. 90048
Limited Liability Partner with power of attorney

25 April 2014

PRESIDENT’S INTRODUCTION TO THE 2013 CONSOLIDATED ANNUAL REPORT

This past year brought with it many positive developments for the Pfleiderer Grajewo Group. The Group’s Management Board closed the sale of its Russian assets. The proceeds were applied to the repayment of the Group’s excessive debt, thus bringing down interest expenses and enhancing the Group’s liquidity position. The Group allocated a portion of the proceeds to the financing of future capex projects in Poland.

The year-on-year pace of growth in furniture sales by value exceeded 6%, largely driven by a strong increase in exports. Demand in the domestic market remained stable. Revenue from continuing operations in the course of the year was generally steady compared with 2012, led by product mix changes and higher sales volumes achieved at lower prices. Return on sales markedly improved, greatly assisted by lower raw material and energy prices.

There was considerable improvement in the Group’s financial performance. Net profit came in at PLN 70m, up by over PLN 53m, with stronger operating profit and reduced debt servicing cost as the key growth factors.

The price of timber − the Group’s primary raw material − fell during the year. This factor, together with steps taken to increase revenue and tighten cost discipline, further improved return on sales.

The average capacity utilisation of the Group’s key process lines was above 87%. The Management Board has made a decision to increase capacity utilisation by 10% in 2014–2015, which is to be achieved by removing technology bottlenecks.

The Group is pursuing an investment programme to upgrade its plants, align its production capacities with market needs and achieve cost efficiencies. Approximately PLN 66m worth of investments have been made to date this year, with a further PLN 31m of ongoing projects scheduled for completion by the half year.

The Group has finally resolved its financial situation. Firstly it has recapitalised and partially repaid the debt of a subsidiary, Pfleiderer MDF, with a surplus portion of the proceeds from the sale of the Group’s Russian assets, and secondly it has modified repayment schedules of the remaining debt.

Pfleiderer Grajewo S.A., the Group’s parent, purchased the remaining 50% of the shares in Silekol, a subsidiary. In addition, a transaction to buy the non-controlling interests in Pfleiderer MDF was closed in January 2014. With these transactions, partly financed from its own funds, the parent now owns 100% of the shares in all its subsidiaries.

Taking into account the expected outcomes of the ongoing investment programme and anticipated growth in market demand, the Management Board believes that prospects are good for further improvement of the Group’s financial performance in the current year.

Kind regards,
Wojciech Gątkiewicz
President of the Management Board

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.

THE PFLEIDERER GRAJEWO GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2013

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 (uniform 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 annual consolidated financial statements for the year ended December 31st 2013 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 of financial statements who audited the annual consolidated financial statements was appointed in compliance with applicable laws, and that both the audit firm and the key certified auditor who performed the audit meet the conditions required to issue an objective and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable laws and professional standards.

Wojciech Gątkiewicz
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Grajewo, April 25th 2014

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

ANNUAL CONSOLIDATED FINANCIAL STATEMENT

Statement of comprehensive income

		Total	Total
		Jan 1–	Jan 1–
Continuing operations	Note	**Dec 31 2013**	**Dec 31 2012**
Revenue	1	1,462,139	1,432,282
Cost of sales	8	(1,200,057)	(1,204,875)
Gross profit		**262,082**	**227,407**
Other operating income (*)	4	8,802	19,089
Distribution costs	8	(94,260)	(96,123)
Administrative expenses	8	(64,157)	(65,596)
Other operating expenses (*)	5	(3,728)	(11,643)
Operating profit		**108,739**	**73,134**
Finance income (*)		3,479	31,679
Finance costs (*)		(31,538)	(86,492)
Net finance costs	7	**(28,059)**	(54,813)
Profit before tax		**80,680**	**18,321**
Income tax expense	9	(10,639)	(1,242)
Net profit on continuing operations		**70,041**	**17,079**
Discontinued operations			
Net profit on discontinued operations	18	97,517	19,206
Net profit for the reporting period		**167,558**	**36,285**
Attributable to non-controlling interests		15,017	(13,530)
Attributable to owners of the parent		152,541	49,815
Other items of comprehensive income			
Exchange differences on translating foreign operations		14,163	(9,590)
Exchange differences on net investments in subsidiaries		3,829	(8,011)
Other items of comprehensive income		**17,992**	**(17,601)**
Comprehensive income for the period		**185,550**	**18,684**
Comprehensive income for the period attributable to:			
Owners of the parent		170,578	32,351
Non-controlling interests		14,972	(13,667)
Comprehensive income for the period		**185,550**	**18,684**
Basic earnings per share (PLN)		3.07	1
Diluted earnings per share (PLN)		3.07	1

*) Data for 2012 is restated – exchange differences were reclassified from financing activities to operating activities.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Statement of changes in equity

	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	(45,696)	(45,696)	(77,749)	(123,444)
Transfer of part of 2012 net profit to statutory reserve funds	0	0	12,003	0	0	0	(12,003)	0	0	0
Transactions with owners recognised in equity	0	0	12,003	0	0	0	(57,699)	(45,696)	(72,745)	(118,441)
As at Dec 31 2013	**16,376**	**289,806**	**207,809**	**619**	**(84)**	**0**	**137,749**	**652,275**	**0**	**652,275**

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Financial year ended December 31st 2012

	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Exchange differences on net investments in subsidiaries	Cash flow hedges	Retained earnings	Total	Non-controlling interests	Total
As at Jan 1 2012	**16,376**	**289,806**	**155,005**	**619**	**(4,839)**	**4,182**	**0**	**33,892**	**495,041**	**71,440**	**566,481**
Comprehensive income for the period											
Net profit/loss	0	0	0	0	0	0	0	49,815	49,815	(13,530)	36,285
Other comprehensive income											
Exchange differences on translating foreign operations	0	0	0	0	(9,453)	0	0	0	(9,453)	(137)	(9,590)
Exchange differences on net investments in subsidiaries	0	0	0	0	0	(8 011)	0	0	(8,011)	0	(8,011)
Total other comprehensive income	*0*	*0*	*0*	*0*	*(9,453)*	*(8,011)*	*0*	*0*	*(17,464)*	*(137)*	*(17,601)*
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**(9,453)**	**(8,011)**	**0**	**49,815**	**32,351**	**(13,667)**	**18,684**
Transactions with owners recognised in equity											
Transfer of part of 2011 net profit to statutory reserve funds	0	0	40,801	0	0	0	0	(40,801)	0	0	0
Transactions with owners recognised in equity	0	0	40,801	0	0	0	0	(40,801)	0	0	0
As at Dec 31 2012	**16,376**	**289,806**	**195,806**	**619**	**(14,292)**	**(3,829)**	**0**	**42,906**	**527,392**	**57,773**	**585,165**

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Statement of financial position

	Note	Dec 31 2013	Dec 31 2012
Assets			
Property, plant and equipment	10	623,837	583,660
Intangible assets	11	1,607	2,218
Goodwill	3	107,829	107,829
Investments in jointly controlled entities		52	117
Other non-current financial assets	12	18,738	10
Investment property	13	3,995	4,300
Deferred tax asset	14	14, 652	12,184
Prepayments for property, plant and equipment	10	5,578	5,426
Government grants receivable	15	14,627	14,443
Non-current assets		**790,915**	**730,187**
Inventories	16	177,692	174,803
Trade and other receivables	17	112,310	70,356
Income tax receivable		21,110	261
Cash and cash equivalents	30	16,450	17,518
Other current financial assets		216	0
FX forwards		100	0
Assets related to discontinued operations	18	0	813,907
Current assets		**327, 878**	**1,076,845**
Total assets		**1,118, 793**	**1,807,032**
Equity and liabilities			
Equity			
Share capital	19	16,376	16,376
Share premium	19	289,806	289,806
Statutory reserve funds	19	207,809	195,806
Revaluation reserve		619	619
Exchange differences on translating foreign operations		(84)	(14,292)
Exchange differences on net investments in subsidiaries		0	(3,829)
Retained earnings		137,749	42,906
Equity (attributable to owners of the parent)		**652,275**	**527,392**
Non-controlling interests		**0**	**57,773**
Total equity	19	**652,275**	**585,165**
Liabilities			
Borrowings and other debt instruments	21	86,801	182,650
Employee benefit obligations	22	8,020	7,111
Provisions	23	786	739
Deferred tax liabilities	14	9,700	8,245
Deferred income from government grants	15	29,340	27,233
Non-current liabilities		**134,647**	**225,978**
Borrowings and other debt instruments	21	67,730	528,448
Income tax payable		500	1,136
Trade and other payables	24	240,260	197,112
Employee benefit obligations	22	22,032	18,736
Liabilities related to discontinued operations	18	0	249,309
Deferred income from government grants	15	1,349	1,148
Current liabilities		**331, 871**	**995,889**
Total liabilities		**466, 518**	**1,221,867**
Total equity and liabilities		**1,118, 793**	**1,807,032**

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Statement of cash flows

	Note	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Cash flows from operating activities			
Net profit for the reporting year		**167,558**	**36,285**
Adjustments		(42,508)	214,103
Depreciation and amortisation	8	48,111	76,946
Foreign exchange gains/losses		(1,605)	(9,129)
Interest for the period	7	26,495	89,877
Profit/loss on investing activities		480	429
Income tax disclosed in profit or loss of the period		10,639	24,302
Deferred income tax recognised in equity		0	(1,879)
Net result on discontinued operations		(97,517)	0
Change in trade and other receivables		(15,581)	22,792
Change in inventories		(11,839)	21,115
Change in trade and other payables	30	(3,666)	(11,138)
Change in employee benefit obligations		4,205	7
Change in provisions		47	105
Amortisation of government grants		(1,162)	(1,871)
Result on forward contracts		2,521	767
Change in exchange differences on translating foreign operations		(79)	1,427
Other adjustments		(3,557)	353
Cash flows from operating activities		**125,050**	**250,388**
Interest received		1,609	217
Income tax paid/received		87	(22,547)
Net cash from operating activities		**126,746**	**228,058**
Cash flows from investing activities			
Disposal of non-current assets		329	(147)
Disposal of discontinued operations	18	618,255	0
Acquisition of intangible assets and property, plant and equipment		(66,440)	(27,576)
Net cash from investing activities		**552,144**	**(27,723)**
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		(589,466)	(129,434)
Repayment of borrowings and other debt instruments in current account		0	22,310
Increase in borrowings and other debt instruments		31,263	0
Acquisition of non-controlling shares		(93,123)	0
Interest paid		(28,632)	(85,522)
Net cash from financing activities		**(679,958)**	**(192,646)**
Change in cash		(1,068)	7,689
Cash at beginning of the period		17,518	19,586
Cash at end of the period	30	**16,450**	**27,275**
Including			
Cash and cash equivalents for continuing operations		16,450	17,518
Cash and cash equivalents included in disposal group	18	0	9,757

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 annual consolidated financial statements of the Pfleiderer Grajewo Group for the period January 1st – December 31st 2013 were approved by the Parent Management Board on April 25th 2013.

2. Structure of the Group

Pfleiderer Grajewo S.A. Group consists of Pfleiderer Grajewo S.A. (parent) and its subsidiaries. In the period January 1st − December 31st 2013, Pfleiderer Grajewo S.A. was the parent with respect to the following entities:

Subsidiaries

1 Pfleiderer Prospan S.A., Wieruszów
2 Silekol Sp. z o.o., Kędzierzyn-Koźle,
3 Pfleiderer MDF Sp. z o.o., Grajewo
4 Jura Polska Sp. z o.o., Grajewo
5 Unifloor Sp. z o.o. in liquidation, Wieruszów
6 Pfleiderer OOO, Novgorod (Russia) – subsidiary until January 23rd 2013
7 Pfleiderer MDF OOO, Novgorod (Russia) – subsidiary until January 23rd 2013
8 Grajewo OOO, Novgorod (a newly established company)
9 Pfleiderer Services Sp. z o.o., Grajewo

Jointly-controlled entities

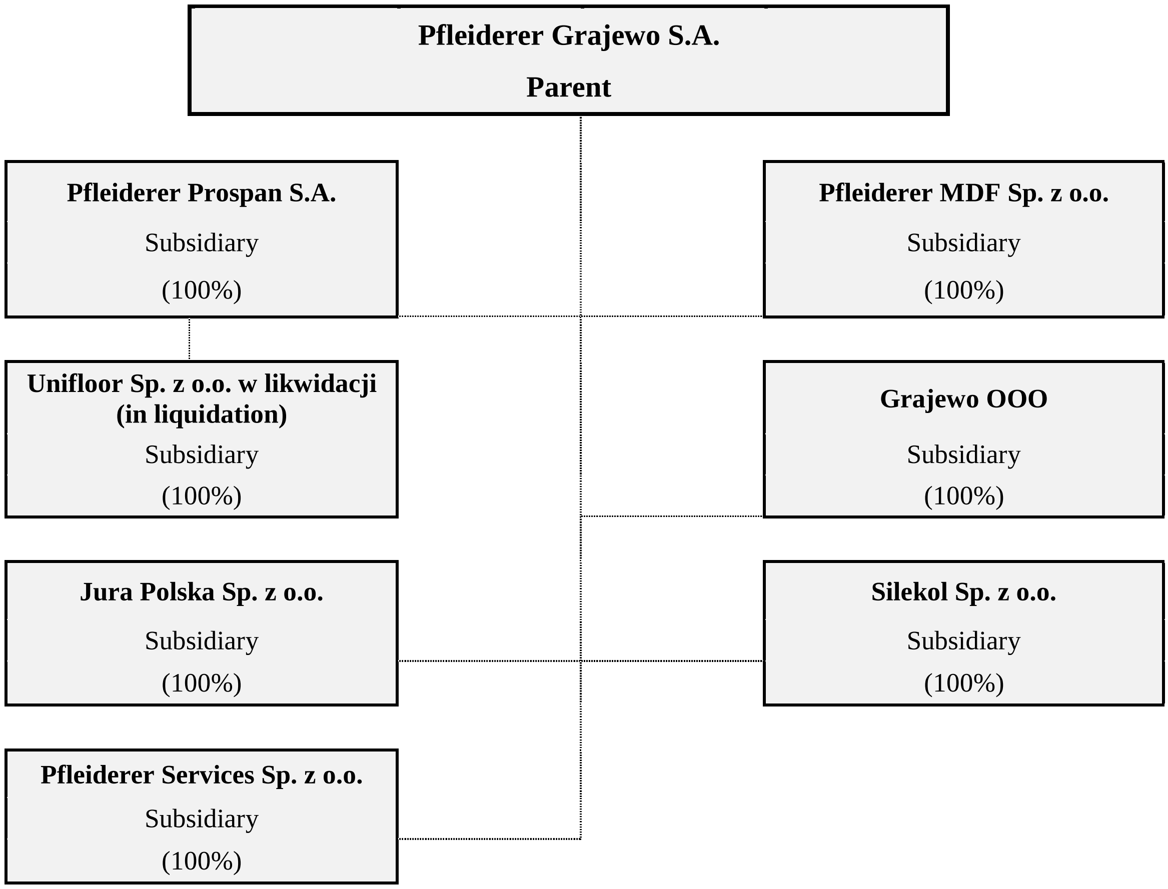
10 Blitz 11-446 GmbH, Neumarkt

Associates

11 Pfleiderer MDF OOO of Novgorod (Russia) – associate from January 23rd to December 30th 2013

(5) Indirectly through Pfleiderer Prospan S.A.
(6) Sale of shares on January 23rd 2013.
(7), (11) Sale of assets and loss of control on January 23rd 2013.
(11) Sale of shares on December 30th 2013.

(8) Purchase of shares on April 16th 2013.
As at December 31st 2013, the structure of the Group was as follows:



These annual 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 2013, Pfleiderer Grajewo S.A., the Parent, had full control of 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.

- On January 23rd 2013, Pfleiderer Grajewo S.A., as the seller, and Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., as the buyers, entered into an agreement for sale of a 100% interest in Pfleiderer OOO of Russia as well as the assets belonging to Pfleiderer MDF OOO, its subsidiary in Russia and joint venture Blitz 11-446 GmbH in Germany The transaction is discussed in Note.18

- On April 16th 2013, Pfleiderer Grajewo S.A., the Parent, purchased, from BI_EL-SI of Russia, 100% of shares in Grajewo OOO. The purchase price was EUR 2 thousand (PLN 9 thousand).

- On December 27th 2013 Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Holzwerkstoffe GmbH of Neumarkt, Germany, as the seller, signed an agreement for the purchase of shares in a subsidiary, Silekol Sp. z o.o. of Kędzierzyn Koźle. Under the agreement, Pfleiderer Grajewo S.A. purchased 22,700 non-preference shares in the share capital of Silekol Sp. z o.o., with a par value of PLN 1,000 per share. These shares represented 50% of the share capital of Silekol Sp. z o.o. and conferred the right to 50% of total vote at the subsidiary's general meeting.

  The purchase price for the shares amounted to EUR 22,433 thousand (an equivalent of PLN 93,123 thousand). The ownership title to the shares was transferred to Pfleiderer Grajewo S.A. on the purchase price payment date, December 27th 2013. As at December 31st 2013, Pfleiderer Grajewo S.A. held 100% of Silekol Sp. z o.o.'s share capital.
  The purchase was financed with Pfleiderer Grajewo S.A.'s own funds and proceeds from credit facilities.
  Pfleiderer Holzwerkstoffe GmbH is a subsidiary of Pfleiderer GmbH of Düsseldorf, which is an indirect parent of Pfleiderer Grajewo S.A.

- On December 27th 2013, Pfleiderer Grajewo S.A. acquired 200,000 newly issued shares in the increased share capital of subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo, with a par value of PLN 500 per share.

  The shares were issued pursuant to a resolution on a PLN 100,000 thousand increase of the company's share capital, passed by an Extraordinary General Meeting of Pfleiderer MDF Sp. z o.o. on December 27th 2013.

  Pfleiderer Grajewo S.A. acquired the shares in exchange for a cash contribution of PLN 100,000 thousand. The subscription was financed with Pfleiderer Grajewo S.A.'s own funds.

  On December 27th 2013, Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Service GmbH of Neumarkt, Germany, as the seller, signed a preliminary agreement for the purchase of shares in subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo.

  The preliminary purchase agreement concerned 135,328 non-preference shares with a par value of PLN 500 per share. The condition of conclusion of the promised agreement was a registration of the increased share capital of Pfleiderer MDF Sp. z o.o.. Both payment on account of the increased share capital, as well as an application for registration of the increase took place before the balance sheet date. Therefore, the decision of the court on the registration, which took place on 20 January 2014, has been recognized only as a formal condition, which had no effect on acquisition of non-controlling interests

  The purchase price for the shares amounted to EUR 6,988 thousand (an equivalent of PLN 29,070 thousand).

  After the purchase of the shares from Pfleiderer Service GmbH, Pfleiderer Grajewo S.A. held 100% of Pfleiderer MDF Sp. z o.o.'s share capital.

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

(all amounts in PLN thousand)

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

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, XX Division of the National Court Register under entry No. KRS: 0000042082.

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

Business profile:

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

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

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

Business profile:

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

- manufacture of dyes and pigments,
- manufacture of other organic and inorganic chemicals,
- manufacture of paints and varnishes,
- manufacture of glues and gelatines.

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

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

(all amounts in PLN thousand)

Business profile:

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

Jura Polska Sp. z o.o. – entered in the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under No. KRS 149282, on November 24th 1999.

Industry Identification Number (REGON):	276746151
Tax Identification Number (NIP):	629-215-85-14
Registered office:	ul. Wiórowa 1, 19-203 Grajewo, Poland

Business profile:

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

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

Industry Identification Number (REGON):	200021250
Tax Identification Number (NIP):	719-149-38-49
Registered office:	ul. Bolesławiecka 10, 98-400 Wieruszów, Poland

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

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

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

The company has suspended its operations.

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

Uniform Registration Number: 1095321004130

(all amounts in PLN thousand)

Tax Identification Number:	5321135070
Registered office:	21/43 Studenitzeskaya Street, Veliky Novgorod, Russia

The company conducts trading activities in Russia.

List of jointly-controlled entities

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

HRB Registry Number:	28 166
Tax Identification Number:	201/116/21366
Registered office:	Ingolstädter Strasse 51, Neumarkt, Germany

Business profile:

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

(all amounts in PLN thousand)

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

As at 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
3.	Dariusz Tomaszewski	Member

On June 26th 2013, Radosław Wierzbicki resigned from the position of Member of the Management Board, Operational Director of Pfleiderer Grajewo S.A. Simultaneously, Mr Radosław Wierzbicki resigned from the position of Member of the Management Board of Pfleiderer Prospan S.A. and Member of the Management Board of Pfleiderer MDF Sp. z o.o. (both companies are subsidiaries of Pfleiderer Grajewo S.A.).

Composition of the Supervisory Board as at December 31st 2013:

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

On February 12th 2013, Mr Hans-Kurt von Werder resigned from the position of Member of Parent's Supervisory Board, effective from February 26th 2013.

In accordance with a resolution of the Extraordinary General Meeting, on February 26th 2013, Mr Richard Mayer was appointed Member of Parent's Supervisory Board.

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

These annual consolidated financial statements were prepared for the year ended December 31st 2013, while the comparative financial data and notes relate to the year ended December 31st 2012.

These annual consolidated financial statements for the year ended December 31st 2013 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 annual 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 31 December 2013 and have not been applied in the consolidated financial statements. Group intends to use them, for the periods for which they are applicable for the first time.
Further, as at the reporting date, the Company has not yet completed estimating the effect of new Standards and Interpretations which will become effective after the reporting date on the Company's financial statements for the period in which they will be applied for the first time.

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

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

Currently, EU-approved IFRS do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amended standards and interpretations, which have not yet been adopted as at the publication date of these financial statements:

Standards and interpretations adopted by the IASB and pending endorsement by the EU as at

December 31st 2013

- **IFRS 9 Financial Instruments** − Optional application (no mandatory effective date),
- Amendments to **IFRS 9 Financial Instruments (amended 2010)** − Optional application (no mandatory effective date),
- Amendments to **IFRS 9 Financial Instruments** and **IFRS 7 Financial Instruments: Disclosures** − Optional application (no mandatory effective date),
- **IFRIC 21 Levies**, effective for annual periods beginning on or after January 1st 2014.
- Amendment to **IAS 19 Employee Benefits** Defined Benefit Plans: Employee Contributions, effective for annual periods beginning on or after July 1st 2014.
- Amendments to the **International Financial Reporting Standards 2010−2012** (annual improvements to IFRS 2010−2012 include eight amendments to seven standards, together with relevant amendments to the other standards and interpretations), effective for annual periods beginning on or after July 1st 2014.
- Amendments to the **International Financial Reporting Standards 2011−2013** (annual improvements to IFRS 2011−2013 include four amendments to standards, together with relevant amendments to the other standards and interpretations), effective for annual periods beginning on or after July 1st 2014.
- **IFRS 14 Regulatory Deferral Accounts**, effective for annual periods beginning on or after January 1st 2016.

b) Basis of accounting

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

c) Functional and presentation currency

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

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

d) Estimates and judgements

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

6. Significant accounting policies

The Group's accounting policies, other than those discussed in this subsection, have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

As of 2013, the Company changed the manner of presentation of foreign exchange gains and losses in the statement of comprehensive income. Foreign exchange gains and losses related to operating activities were reclassified from financing activities to other income or expenses, respectively. The change affects the amount of operating profit and net finance income/costs. It does not affect, though, profit before tax.

To ensure comparability of data presented in the financial statements, the Group has restated the statement of comprehensive income for the comparative period. As a result, other expenses and other income rose by PLN 3,879 thousand and PLN 424 thousand, respectively, while finance income and finance expenses decreased by the same amounts.

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 that 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 or 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 the exchange rate at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated as at the reporting date at the exchange rate for a given currency for that date. Non-monetary assets and liabilities valued at historical cost in foreign currencies are translated at the exchange rate at the transaction date.

(all amounts in PLN thousand)

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			Exchange rates used to translate items of the statement of comprehensive income	
	Dec 31 2013	**Dec 31 2012**		**Dec 31 2013**	**Dec 31 2012**
EUR	4.1472	4.0882	EUR	4.2110	4.1850
USD	3.0120	3.0996	USD	3.1653	3.2565
GBP	4.9828	5.0119	GBP	4.9528	5.1591
RUB	0.0914	0.1017	RUB	0.0990	0.1048
RON	0.9262	0. 9197	RON	0.9543	0.9377

(ii) Translation of foreign operations

As at the reporting date, assets and liabilities of foreign subsidiaries are translated to zloty at the exchange rate at the reporting date. Income and expenses are translated at the exchange rate at the dates of the transactions. The related foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity as a separate item. At the time of disposal of a foreign entity in a way, that control is lost, 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 item receivable or liability from a foreign operation, whose settlement is neither planned nor probable in the foreseeable future, are considered to form part of net investments in foreign operation and are recognised in other comprehensive income and presented in translation reserve in equity.

c) Financial instruments

(i) Non-derivative financial instruments

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

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised from the statement of financial position if the Group's contractual rights to the 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 asset in a way that part of it will not be derecognised. If the Group transfers financial asset in a way that it neither retains nor transfers substantially all the risks and rewards of ownership but it retains control of the financial asset the Group continues to recognise a financial asset to the extent of its continuing involvement in it. 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. The cash and cash equivalents balance presented in the statement of cash flows comprise the abovementioned cash and cash equivalents.

Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented in the fair value reserve in equity. When investment is derecognised, he gain or loss accumulated in equity is reclassified to profit or loss. Investments in equity instruments which are not listed on an active market are stated at cost less any accumulated impairment losses.

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 that Group becomes a party to the contractual provisions of the instrument.

The Group's financial liabilities measured at amortised cost comprise loans and borrowings, trade and other payables.

The fair value for disclosure purposes is determined based on the present value of future cash flows from repayment of capital 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.

At the time of initial recognition, 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 includes 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 treasury bills).

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 profit or loss in the same period and under 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 the derivative instrument is recognised immediately in 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 affect profit or loss.

d) Property, plant and equipment

(i) Owned property, plant and equipment

Property, plant and equipment are recognised in the books 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 acquisition 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 and a tangible asset under construction comprises all the 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 management. The production cost comprises also the estimation of the 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 use of a property changes from owner occupied to investment property, it is measured at fair value and reclassified to investment property. Any gain arising 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 revaluation reserve in equity. Any losses are recognised as profit or loss.

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

Lease agreements under which en 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 lives using the straight-line method, taking into account the residual value. Land is not depreciated. Leased assets under a finance lease are depreciated over the shorter of the lease term and their useful life unless it is reasonable 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 lives for particular categories of tangible assets:

Buildings	25 to 40 years
Plant and equipment	2 to 25 years
Vehicles	5 to 8 years
Other tangible assets	4 to 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 prospectively, if appropriate.

e) Intangible assets

(i) Goodwill

Any business combination other than combination of companies under common control is accounted for by use of the acquisition method.

Goodwill is recognised initially 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 acquire, 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 acquired in a separate transaction 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) Depreciation

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

Licences	2 to 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 each balance-sheet date and adjusted prospectively, if appropriate.

f) Investment property

Investment property is held to earn rentals 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 their 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 products 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 each reporting date. 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 value 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 each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable value 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 in respect to goodwill is not reversed. As far as other assets are concerned, at each reporting date 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. According to IAS 19, 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 other comprehensive income.

l) Provisions

Provisions are created 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 products/merchandise and services

Revenue from sales of finished products/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 products 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 products/merchandise is highly uncertain, or if the Company is involved in the management of the sold finished products/merchandise on a continuing basis.

Revenue from provision of services includes mainly revenue from transportation services. Revenue from provision of services with duration of up to six months is recognised on completion of the service.

(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 life of the asset.

In addition to monetary government grants above, the Group recognises government grants in the form of exemption from income tax as tax receivables and deferred income (government grant) related to 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 (along with the applicable depreciation charges) in the case of which the 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 charge for the property, plant and equipment. In the following accounting 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 the government grant asset (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) Payments under operating leases

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) Payments under finance leases

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is 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 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, 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 are recognised in profit or loss using the effective interest rate method.

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

q) Income tax expense

Corporate income tax recognised in the income statement comprises the current and deferred tax. The 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 reporting date, and including any adjustments of the tax due for the previous years.

The deferred income tax is determined with the use of the balance-sheet liability method in relation to all temporary differences existing as at the reporting date 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 the 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 the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

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 each reporting date 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 reporting date.

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 revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The 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 assess their 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 Company, 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.

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 companies are allocated:

Operating segments	Companies comprising the segment	Business profile
Poland	Pfleiderer Grajewo S.A.	Production of chipboard
	Jura Sp. z o.o.	Transport services – mainly to Polish companies of the Pfleiderer Grajewo S.A. 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.	in liquidation
	Pfleiderer MDF Sp. z o.o.	Production of thin MDF board
	Grajewo OOO	Trading activities in Russia
Russia	Pfleiderer MDF OOO	Discontinued operations
	Pfleiderer OOO	Discontinued operations

Information on geographical segments

Revenue by country of customer's registered office:

Country	**Jan 1 – Dec 31 2013**	**Jan 1 – Dec 31 2012**
Poland	926,050	929,737
Germany	178,235	148,830
Lithuania	86,422	73,643
Russia	82,819	115,044
Sweden	36,608	24,941
Czech Republic	29,150	28,136
Belarus	17,818	15,750
Latvia	14,299	11,246
Ukraine	12,848	11,590
Slovakia	10,175	8,303
Netherlands	9,556	11,127
Romania	8,061	6,712
Kazakhstan	7,628	7,901
Denmark	6,863	6,494
Hungary	5,270	1,965
Azerbaijan	5,258	8,093
Finland	4,957	5,725
Italy	3,520	2,517
Moldova	2,294	2,341
Serbia	1,652	721
Republic of South Africa	1,396	1,101
Estonia	1,351	844
Georgia	1,293	1,141
San Marino	1,237	0
United Kingdom	795	3,678
Other countries	6,584	4,702
Total	**1,462,139**	**1,432,282**

(all amounts in PLN thousand)

Products and Services

By product group	Jan 1 – Dec 31 2013	% share	Jan 1 – Dec 31 2012 *)	% share
Revenue from sales	**1,392,761**	**95.3%**	**1,375,883**	**96.1%**
Chipboard	898,621	61.5%	804,452	56.2%
MDF boards	126,675	8.7%	197,742	13.8%
Glues	230,056	15.7%	215,723	15.1%
Other	137,409	9.4%	157,966	11.0%
Revenue from sales of materials	**9,816**	**0.7%**	**4,538**	**0.3%**
Revenue from sales of merchandise	**24,237**	**1.7%**	**22,696**	**1.6%**
Revenue from rendering of services	**35,325**	**2.3%**	**29,165**	**2.0%**
Total sales	**1,462,139**	**100.0%**	**1,432,282**	**100.0%**

*) Revenue by countries and products comprise continuing operations.

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 2013 and 2012, 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.

On April 16th 2013, Pfleiderer Grajewo S.A., the Parent, purchased, from BI_EL-SI of Russia, 100% of shares in Grajewo OOO. The shares were purchased for EUR 2 thousand (PLN 9 thousand). In these financial statements, subsidiary Grajewo OOO is presented in the 'Poland' geographical segment as it does not meet the quantity criteria applicable to the identification of a separate operational segment.

In Q4 of 2012, the Pfleiderer Grajewo Group entered into a conditional agreement with Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., providing for the sale of all shares in Pfleiderer OOO of Russia as well as Pfleiderer MDF OOO's assets. At the same time, under the agreements, the Pfleiderer Grajewo Group lost control of subsidiary Pfleiderer MDF OOO. Both companies operated in the same operational segment. As at December 31st 2012, the Group classified the subsidiaries' assets as held for sale or distribution and their respective liabilities as liabilities related to the assets held for sale or distribution (note 18). Transactions between the sold companies and the Group are appropriately presented in the segment forming part of discontinued operations.

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.

(all amounts in PLN thousand)

Operating segments

	Poland		Russia		Inter-segment eliminations				Total consolidated	
	Continuing operations		Discontinued operations***		Inter-segment eliminations	Discontinued activity eliminations	Inter-segment eliminations	Discontinued activity eliminations		
	2 013	**2 012**	**2 013**	**2 012**	**2 013**	**2 013**	**2 012**	**2 012**	**2 013**	**2 012**
Segment's revenue from sales to third-party customers	1,465,551	1,344,048	18,357	445,894	0	(21,769)	0	(357,660)	1,462,139	1,432,282
Revenue from inter-segment transactions	0	89,000	3,412	766	**(3,412)**		(89,766)		(0)	0
Total revenue	1,465,551	1,433,048	21,769	446,660	(3,412)	(21,769)	(89,766)	(357,660)	1,462,139	1,432,282
Total costs	(1,356,877)	(1,359,913)	(19,364)	(369,622)	3,479	19,364	89,375	281,012	(1,353,400)	(1,359,148)
Operating profit/(loss)	108,674	73,135	2,405	77,038	65	(2,405)	(391)	(76,648)	108,739	73,134
Finance income/costs									(28,059)	(54,813)
Tax									(10,639)	(1,242)
Net profit/loss									70,041	17,079
Segment's assets	1,066,615	1,596,730	0	741,806	(34)	0	(561,466)	0	1,066,581	1,777,069
including: non-current assets	776,271	964,535	0	0	(9)	0	(246,456)	0	776,262	718,079
current assets	290,344	632,195	0	741,806	(25)	0	(315,010)	0	290,319	1,058,990
Unallocated assets *								0	52,212	29,963
Total assets								0	1,118,793	1,807,032
Segment's operating liabilities	301,788	252,323	0	267,506	(0)	0	(18,440)	0	301,788	501,389
Unallocated liabilities **									164,730	720,479
Capital expenditure										
property, plant and equipment	84,278	18,019	0	5,555	0	0	0	0	84,278	23,574
Intangible assets	0	2,280	0	0	0	0	0	0	0	2,280
Depreciation and amortisation										
Depreciation of property, plant and equipment	(47,262)	(41,523)	0	(33,403)	0	0	(142)	0	(47,262)	(75,068)
Amortisation of intangible assets	(849)	(1,515)	0	(363)	0	0	0	0	(849)	(1,878)

* Unallocated assets include cash, income tax receivables and deferred tax assets.

** Unallocated liabilities include income tax payable, deferred tax liability, borrowings and other debt instruments.

2 Seasonality of operations

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

3 Goodwill

Impairment test of cash generating unit containing goodwill

As at December 31st 2013, the Parent's Management Board estimated the recoverable amount of goodwill.

Goodwill was allocated to the cash-generating unit (Pfleiderer Prospan SA). Recoverable amount of 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. Such calculation is made using the projected cash-flows 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 3% growth rate, which does not exceed the average long-term growth rate for the manufacturing sector in Poland. The main 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 – 3%;
- discount rate – 10.2%.

The Management Board made budget assumptions for the impairment test based on past performance and on the Management Board's market development forecasts. A discount rate was applied to reflect the risks specific to a given operating segment. A rate of return on 10-year government bonds was assumed as the risk-free rate. The projected cash flows were derived from the budgets for the years until 2018 approved by the Management Board. Cash flows for further five years are determined by extrapolating the results for 2018 at a fixed growth rate of 3%. The test did not reveal any impairment of goodwill as at December 31st 2013.

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

(all amounts in PLN thousand)

4 Other income

	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Profit on sale of property, plant and equipment	0	78
Reversal of impairment loss on receivables	1,589	2,034
Compensations and penalties received	212	527
Release of unused accruals and deferred income	1,149	1,416
Government grants	1,154	1,871
Other income	4,698	13,163
Total	**8,802**	**19,089**

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

Other income of PLN 13,136 thousand comprises net proceeds of PLN 11,795 thousand from sale of items of property, plant and equipment, which were subsequently placed in use under operating leases (note 26).

5 Other expenses

	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Loss on disposal of property, plant and equipment	175	410
Impairment loss on trade receivables	773	3,539
Receivables written-off	36	1,497
Damages paid	204	178
Recognition of accruals and deferred income	1,226	165
Other expenses	1,314	5,854
Total	**3,728**	**11,643**

6 Employee benefit expense

	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Salaries and wages payable	79,496	78,119
Employee benefits	21,118	20,001
Decrease in length-of-service award obligation	0	(62)
Increase in retirement bonus obligations	963	494
Change in obligations related to settlements with employees	47	105
Decrease in unused holiday entitlement obligations	393	737
Change in liabilities related to bonus payment	2,480	155
	104,497	99,549

(all amounts in PLN thousand)

7 Finance income and costs

Disclosed in profit or loss of the period:

	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Interest income	1,981	31,182
Gains on forward contracts	1,498	426
Other finance income	0	71
Finance income	3,479	31,679
Interest expense	(28,476)	(81,733)
Net foreign exchange loss	(1,492)	(4,004)
Investment revaluation	(305)	0
Other finance costs	(1,265)	(755)
Finance costs	(31,538)	(86,492)
Net finance costs	**(28,059)**	**(54,813)**

Recognised in other comprehensive income

	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Exchange differences on net investments in subsidiaries	3,829	(8,011)
	3,829	**(8,011)**

8 Costs by nature of expense

	Dec 31 2013	Dec 31 2012
Materials used	891,527	913,236
Depreciation and amortisation [1)]	44,204	43,016
External services	163,281	154,331
Taxes and charges	16,265	15,462
Employee benefit expense	104,497	99,549
Cost of merchandise and materials sold	123,439	129,925
Other costs	18,186	17,882
Total costs	**1,361,399**	**1,373,401**
.		
Change in inventories of finished products and accruals and deferrals	(1,501)	(3,118)
Work performed by entity and capitalised to assets	(1,424)	(3,689)
Total operating expenses	**1,358,474**	**1,366,594**
Including		
Distribution costs	94,260	96,123
Administrative expenses	64,157	65,596
Cost of sales	**1,200,057**	**1,204,875**

1) The amount of amortization in 2013 was reduced by the amount of the reversal of a provision for depreciation of an asset in the amount of PLN 3.9mio.

(all amounts in PLN thousand)

9 Income tax expense

		Jan 1 – Dec 31 2013	Jan 1 – Dec 31 2012
Income tax expense			
Current portion of income tax			
		1,921	8,160
		1,921	8,160
Deferred income tax			
Relating to origination and reversal of temporary differences		(758)	(13,856)
Tax loss		9,476	6,938
	14	8,718	(6,918)
Tax expense recognised in the consolidated income statement		10,639	1,242

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

Change in tax under temporary differences brought forward		Jan 1 – Dec 31 2013		Jan 1 – Dec 31 2012
Profit before tax		**80 680**		**18,321**
Tax at domestic rate	19.00%	15,329	19.00%	3,481
Effect of foreign tax rates	0.02%	14	0.00%	0
Recognition of deferred tax assets not recognized in previous years	(6.14%)	(4,956)	(21.49%)	(3,938)
Coverage of accumulated loss generated outside the Zone	(0.05%)	43	0.17%	(31)
Non-tax-deductible expenses – permanent differences	0.44%	352	15.21%	2,786
Non-taxable income – permanent differences	0.18%	(143)	5.76%	(1,056)
Effect on income tax	**(5.83%)**	**(4,704)**	**(12,22%)**	**(2,239)**
Income tax at effective tax rate	13%	10,639	7%	1,242
Income tax disclosed in the consolidated income statement		**10,639**		**1,242**

(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 2012	471,018	1,168,636	42,198	246,192	1,928,044
Increases	0	0	6	25,838	25,844
Decreases	217	3,573	2,174	0	5,964
Transfers	4,631	13,514	643	(21,057)	(2,269)
Reclassification into assets held for sale	(119,528)	(327,631)	(12,388)	(228,962)	(688,509)
Effect of exchange differences on translating subsidiaries	(5,107)	(12,701)	(533)	(9,912)	(28,253)
As at Dec 31 2012	350,797	838,245	27,752	12,099	1,228,893
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

(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 2012	148,837	593,868	31,489	0	774,194
Depreciation	15,801	55,613	3,654	0	75,068
Decreases	217	3,448	2,015	0	5,680
Reclassification into assets held for sale	(31,991)	(148,817)	(9,922)	0	(190,730)
Effect of exchange differences on translating subsidiaries	(1,277)	(5,938)	(404)	0	(7,619)
As at Dec 31 2012	131,153	491,278	22,802	0	645,233
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
Net value					
As at Dec 31 2012	**219,644**	**346,967**	**4,950**	**12,099**	**583,660**
As at Dec 31 2013	**212,501**	**376,609**	**7,105**	**27,622**	**623,837**

Property, plant and equipment under finance lease

As at December 31st 2013 and December 31st 2012, the Group held no property, plant and equipment under finance lease agreements.

Tangible assets under construction

Investment projects

Investment projects completed in 2013: KT press (PLN 20.1m), KT 10 press upgrade (PLN 1.4m), wood dust mill (PLN 4.3m), wood chip transport (PLN 2.9m), dry wood shavings sorting mill upgrade (PLN 3.3m), formaldehyde unit development (PLN 7.4m), adhesives production unit development (PLN 4.2m). Expenditure of PLN 22.7m was made primarily on smaller operating projects, with cost below PLN 1m.

Impairment of non-financial non-current assets

The Management Board tested non-current non-financial assets for indications of impairment as at December 31st 2013. The analysis revealed no indications of impairment at the Parent and at the subsidiaries Pfleiderer Prospan S.A, Silekol Sp. z o.o, and Jura Sp. z o.o.

However, such indications were found at Pfleiderer MDF Sp. z o.o., and the Management Board carried out an impairment test of non-current assets as at December 31st 2013.

The recoverable value of non-current assets 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 3% growth rate, which does not exceed the average long-term growth rate for the manufacturing sector in Poland. The growth 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 2013 to calculate the value in use were as follows:

- Terminal growth rate beyond the five-year period covered by the budget – 3%,
- Discount rate – 10.2%.

The Management Board made budget assumptions for the impairment test based on past performance and on the Management Board’s market development forecasts. A discount rate was applied to reflect the risks specific to a given operating segment. A 4.44% rate of return on 10-year government bonds was assumed as the risk-free rate. The projected cash flows were derived from the budgets for the years until 2018, approved by the Management Board. Cash flows for further five years are determined by extrapolating the results for 2018 at a fixed growth rate of 3%.

The test did not reveal any impairment of non-current assets as at December 31st 2013.

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

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

- 17% EBITDA decrease
- PLN 11.6m working capital increase in the subsequent years
- 2.7 pp discount rate increase

(all amounts in PLN thousand)

11 Intangible assets

	Licences, computer software and other
Gross value	
As at Jan 1 2012	26,270
Increase	10
Transfers	2,269
Reclassification into assets held for sale	(3,826)
Effect of exchange differences on translating subsidiaries	(165)
As at Dec 31 2012	24,558
As at Jan 1 2013	24,558
Decreases	652
Transfers	238
As at Dec 31 2013	24,144
Accumulated depreciation and impairment losses	
As at Jan 1 2012	23,731
Amortisation	1,878
Reclassification into assets held for sale	(2,951)
Effect of exchange differences on translating subsidiaries	(318)
As at Dec 31 2012	22,340
As at Jan 1 2013	22,340
Amortisation	849
Decreases	(652)
As at Dec 31 2013	22,537
As at Dec 31 2012	**2,218**
As at Dec 31 2013	**1,607**

(all amounts in PLN thousand)

12 Other financial assets

	Dec 31 2013	Dec 31 2012
Other non-current financial assets		
Financial assets available for sale	**75**	**10**
- shares in companies not listed on a regulated securities market	75	10
Other financial assets	**18,663**	**0**
- Non-current receivables	18,663	0
	18,738	**10**

13 Investment property

As at December 31st 2013, the Group disclosed investment property of PLN 3,995 thousand.

As at December 31st 2012, the Group disclosed investment property of PLN 4,300 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 2013 was not used in the production or rendering of merchandise or 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 future source of 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 2013, a qualified property appraiser engaged by the Group estimated the fair value of the land, which is an investment property, at PLN 3,995 thousand (fair value – level 2). The Group charged the cost resulting from the change in the fair value of the investment property, in the amount of PLN 305 thousand, to the financial result of the current period.

As at the reporting date, the investment property does not serve as security for bank loans granted to the Group.

(all amounts in PLN thousand)

14 Deferred income tax asset and liability

	Assets Dec 31 2013	Liabilities Dec 31 2013	Net Dec 31 2013	Assets Dec 31 2012	Liabilities Dec 31 2012	Net Dec 31 2012
Non-current assets						
Property, plant and equipment	15,470	17,762	(2,292)	13,699	18,279	(4,580)
Investment property	0	539	(539)	0	597	(597)
Loans advanced	0	0	0	0	1	(1)
Other non-current financial assets	4	3,546	(3,542)	4	0	4
Current assets						0
Inventories	1,323	0	1,323	1,995	0	1,995
Other current financial assets	0	73	(73)	0	93	(93)
Trade and other receivables	1,522	1,944	(422)	2,580	262	2,318
Cash	2	0	2	0	0	0
Disposal group	0	0	0	1,244	15,278	(14,034)
FX forwards	0	19	(19)	0	0	0
Non-current liabilities						
Liabilities under bank borrowings and other debt instruments	0	0	0	1 025	0	1,025
Provisions	149	0	149	140	0	140
Employee benefit obligations	1,353	0	1,353	1,205	0	1,205
Current liabilities						
Overdraft facility	0	0	0	0	181	(181)
Trade and other payables	2,553	82	2,471	1,201	8	1,193
Provisions	15	0	15	7	0	7
Employee benefit obligations	2,383	0	2,383	1,829	7	1,822
Total tax loss brought forward	4,143	0	4,143	13,716	0	13,716
Deferred income tax asset/liability	28,917	23,967	4,952	38,645	34,706	3,939
Deferred income tax asset and liability offset	(14,267)	(14,265)		(26,461)	(26,461)	
Deferred income tax asset/liability shown in the statement of financial position	**14, 652**	**9,700**		**12,184**	**8,245**	

(all amounts in PLN thousand)

Changes related to temporary differences during the reporting period:

	As at Jan 1 2012	including discontinued operations – opening balance	As at Jan 1 2012 – continuing operations	Recognised in profit or loss	Recognised in equity	As at Dec 31 2012 continuing operations	As at Dec 31 2012 discontinued operations
Non-current assets							
Property, plant and equipment	-13,029	-488	-12,541	7,961	0	-4,580	-4,272
Investment property	-597	0	-597	0	0	-597	0
Loans receivables	-12,339	0	-12,339	10,459	1,879	-1	0
Other non-current financial assets	4	0	4	0	0	4	0
Current assets							
Inventories	956	-267	1,223	772	0	1,995	-305
Other current financial assets	316	503	-187	94	0	-93	0
Trade and other receivables	1,458	632	826	1,492	0	2,318	1 188
Loans receivables	-7,966	0	-7,966	-6,068	0	-14,034	0
Liquid funds and other current assets	0	0	0	0	0	0	-17
Non-current liabilities							
Liabilities under bank borrowings and other debt instruments	-687	55	-742	1,767	0	1,025	0
Employee benefit obligations	1,113	0	1,113	92	0	1,205	0
Provisions	120	0	120	20	0	140	0
Current liabilities							
Liabilities under bank borrowings and other debt instruments	1,487	0	1,487	-1,668	0	-181	0
Trade and other payables	4,302	2,922	1,380	-187	0	1,193	1 361
Employee benefit obligations	1,648	0	1,648	174	0	1,822	172
Provisions	0	0	0	7	0	7	0
Total tax loss carried forward	23,834	3,180	20,654	-6,938	0	13,716	0
	620	**6,537**	**-5,917**	**7,977**	**1,879**	**3,939**	**-1,873**
Income tax attributable to discontinued operations				**-8,410**			
Exchange differences on translating foreign operations				**91**			
Change in temporary differences recognised in profit or loss				**-342**			

(all amounts in PLN thousand)

	As at Jan 1 2013 during reporting period	Recognised in profit or loss	Recognised in equity	As at Dec 31 2013
Non-current assets				
Property, plant and equipment	(8,851)	6,559	0	(2,292)
Investment property	(597)	58	0	(539)
Investments in related parties	(1)	1	0	0
Other non-current financial assets	4	(3,566)	0	(3,542)
Current assets				
Inventories	1,690	(495)	128	1,323
Other current financial assets	(93)	20	0	(73)
Trade and other receivables	3,507	(3,909)	0	(422)
Cash and cash equivalents	(17)	19		2
Investments in related parties	(14,034)	14,034	0	0
FX forwards	0	(19)	0	(19)
Non-current liabilities				
Liabilities under bank borrowings and other debt instruments	1,025	(1,025)	0	0
Employee benefit obligations	1,205	(1,056)	0	149
Provisions	140	1,213	0	1,353
Current liabilities				
Liabilities under bank borrowings and other debt instruments	(181)	181	0	0
Trade and other payables	2,554	(83)	0	2 471
Employee benefit obligations	1,822	(1,807)	0	15
Provisions	179	2,204	0	2,383
Total tax loss brought forward	13,716	(9,573)	0	4,143
	2,068	**2,756**	**128**	**4,952**
Income tax attributable to discontinued operations		**(11,474)**		
Total income tax as disclosed in the financial statements		**(8,718)**		

15 Government grants receivable and deferred income under government grants

Government grants receivables include economic assistance received under the following titles:

1) Pursuant to a project co-financing agreement concluded between Pfleiderer MDF Sp. z o.o. (a member of the Group) and the Minister of Economy of October 30th 2006, the Group received PLN 23,051 thousand as an investment grant to co-finance the construction of the 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 employment costs connected with 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 two years starting 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 (“SSE”), which entitles the company to use government assistance in the form of a corporate income tax exemption, provided that the company satisfies certain conditions which are discussed below.

   The permit to conduct business activities in the Suwałki Special Economic Zone entitles the company to use government grants. A corporate income tax exemption is a form of government grants. The permit is valid until September 1st 2016, provided that the company meets certain requirements. These requirements include incurring capital expenditure of at least EUR 78m by December 31st 2009, employing at least 120 people by January 1st 2010, and meeting the other requirements imposed by the laws pertaining to Special Economic Zones. As at the reporting date, 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 2013, the Group used PLN 3,315 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 2012 and 2013.

Type of government grants	Investment grant	Corporate income tax exemption	Total
As at Jan 1 2012	17,152	25,208	42,360
Amortisation of government grants	(821)	(1,050)	(1,871)
Revaluation of government grants	0	(12,108)	(12,108)
As at Dec 31 2012	**16,331**	**12,050**	**28,381**
As at Jan 1 2013	16,331	12,050	28,381
Amortisation of government grants	(826)	(328)	(1,154)
Revaluation of government grants	0	3,462	3,462
As at Dec 31 2013	**15,505**	**15,184**	**30,689**
Non-current portion	14,685	14,655	29,340
Current portion	820	529	1,349
Total	**15,505**	**15,184**	**30,689**

As at December 31st 2013, the Group performed an analysis and reassessment of the amount of government grants. As a result, 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 3,462 thousand, which resulted from a change in the estimated corporate income tax, which will not be paid given the exemption for the period of the Group's operations in the Suwałki Special Economic Zone. The amount was estimated based on the updated budget projections approved by the Management Board. The Management Board adopted budget assumptions, which serve as a basis for the estimation of the government grants amount based on historical results and expectations as to the market developments. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. As required by IFRS as adopted by EU, the estimated amount of government grant has not been discounted. Furthermore, the carrying amount of government grant asset was reduced by PLN 3,315 thousand, that is the amount of unpaid corporate income tax related to the Group's operations in the Suwałki Special Economic Zone in 2013.

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

	Dec 31 2013	Dec 31 2012
Corporate income tax exemption	14,627	14,443
Total	**14,627**	**14,443**
Non-current portion	14,627	14,443
	14 627	**14,443**

(all amounts in PLN thousand)

16 Inventories

	Dec 31 2013	Dec 31 2012
Materials and merchandise	101,600	103,777
Semi-finished products and work in progress	92	0
Finished products	67,151	64,516
Prepaid deliveries	8,849	6,510
Total	**177,692**	**174,803**

Inventories are stated in the statement of financial position at net realisable value, i.e. net of write-downs of PLN 6,961 thousand (December 31st 2012: PLN 11,138 thousand).

17 Trade and other receivables

	Dec 31 2013	Dec 31 2012
Trade receivables	40,558	43,090
Trade receivables from related parties	38,826	7,597
Current prepayments and accrued income	7,025	10,380
Current VAT receivables	15,114	7,660
Other receivables	10,787	1,629
Total	**112,310**	**70,356**

Other receivables, in the amount of PLN 10,787 thousand, included in particular part of the receivables which are, under executed agreements, blocked in bank accounts and relate to the sale of shares in the Russian companies of the Group. As at December 31st 2013, these receivables amounted to PLN 8,294 thousand.

As at December 31st 2013, trade receivables were reduced by impairment losses of PLN 10,647 thousand (December 31st 2012: PLN 11,453 thousand).

Trade and other receivables include the following financial receivables:

	Note	Dec 31 2013	Dec 31 2012
Trade receivables		40,558	43,090
Trade receivables from related parties		38,826	7,597
Other receivables		10,787	1,629
Total	25	**90,171**	**52,316**

(all amounts in PLN thousand)

Factoring of receivables

The Group is a party to factoring agreements; such agreements are executed for periods of not less than one year.

As at December 31st 2013, the Parent, Pfleiderer Grajewo S.A., and subsidiaries, Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o., were parties to factoring agreements with PEKAO Factoring Sp. z o.o., valid until March 31st 2014. The factoring agreements signed with PEKAO Faktoring Sp. z o.o. have been extended until March 31st 2015 by Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A., and until February 28th 2015 by Pfleiderer MDF Sp. z o.o. The extended agreements provide for limits of PLN 100,000 thousand for Pfleiderer Grajewo S.A., PLN 100,000 thousand for Pfleiderer Prospan S.A. and PLN 50,000 thousand for Pfleiderer MDF Sp. z o.o., with the proviso that the aggregate amount used by the three companies may not exceed PLN 200,000 thousand.

The factoring agreement signed with Pekao Factoring Sp. z o.o. by the subsidiary Pfleiderer Prospan S.A. was in force until February 28th 2014. The agreement was terminated on January 30th 2014. On the same day, subsidiary Pfleiderer Prospan S.A., executed a new factoring agreement with BZ WBK Faktor Sp. z o.o. for non-recourse financing of trade receivables, with a limit of PLN 80,000 thousand. Additionally Silekol has an agreement with a limit of PLN 15 m. Collection of the receivables acquired by the factor is secured with an assignment of rights under the receivables insurance agreements.

Under the factoring agreements, the factor purchases the receivables for 90% or 100% of their nominal value, and the cost of financing the factoring services (WIBOR + margin) is borne 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 value is covered by the Group. As the Group's exposure equals 10% of the receivables sold to the factor under the factoring agreement, that portion of the receivables together with 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 the carrying amounts of the receivables and the related liabilities which continue to be recognised in the statement of financial position:

	Dec 31 2013	Dec 31 2012
Total trade receivables	220,212	186,405
Receivables derecognised from the statement of financial position	(140,828)	(135,718)
Net trade receivables	**79,384**	**50,686**

	Dec 31 2013	Dec 31 2012
Factoring receivables as at the reporting date	182,157	157,912
Payments made by customers, not submitted to the factor	25,607	7,015
Balance after payments, including:	156,550	150,896
Derecognised receivables (90%)	140,828	135,718
Receivables recognised in the statement of financial position up to the commitment amount (10%)	**15,722**	**15,178**

Settlement of factoring services	Dec 31 2013	Dec 31 2012
Factoring receivables as at the reporting date	182,157	157,912
Other settlements with the factor – cash in transit	298	(223)
Payments received	(144,993)	(140,271)
Factoring liabilities as at the reporting date	**37,462**	**17,418**

(all amounts in PLN thousand)

18 Discontinued operations and assets held for sale

On October 19th 2012, Pfleiderer Grajewo S.A., 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 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 the subsidiaries' shares and assets and the joint venture's assets. In addition, under an agreement of 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 included in the result 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 related to discontinued 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 2013	Jan 1– Dec 31 2012
Net cash from operating activities	(4,380)	86,100
Net cash from investing activities	618,255	(4,609)
Net cash from financing activities	0	(81,966)
Net cash for the period	**613,875**	**(475)**

Net profit on discontinued operations

	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Revenue	21,769	358,995
Expenses	(19,364)	(282,347)
Operating profit	**2,405**	**76,648**
Net finance cost	(2,983)	(34,382)
Pre-tax profit	(578)	42,266
Tax	(740)	(23,060)
Profit from discontinued operations after tax	**(1,318)**	**19,206**
Gain on disposal of discontinued operations	137,123	0
Tax on gain on disposal of discontinued operations	(38,288)	0
Net profit on discontinued operations	**97,517**	**19,206**
Basic earnings per share	**1,97**	**0,39**
Diluted earnings per share	**1,97**	**0,39**

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

(all amounts in PLN thousand)

19 Equity

	Dec 31 2013	Dec 31 2012
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	3.07	1.00

All the shares issued by the Group are ordinary shares. Holders of ordinary shares are entitled to receive approved dividends and to one vote per share held at the Company's General Meeting. All shares confer the same rights to share in the distribution, if any, of the Company'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 2013, the number of the Company shares held by its shareholder, Pfleiderer Service GmbH, did not change. The ultimate shareholder of Pfleiderer S.A. is Atlantic S.A., Luxembourg.

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 2013, all the shares were paid up. Shareholders have the right to dividend and are entitled to one vote per share at the General Meetings.

In the period from January 1st to December 31st 2013, 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 the total amount of PLN 28,863 thousand and retained earnings to decrease by the same amount.

Share premium

Share premium is created from the excess of proceeds from issuance of shares above their par value. In 2013, there were no changes in share premium.

Statutory reserve funds

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

In 2013, the 2012 profit allocated by the Group to statutory reserve funds was PLN 12,003 thousand.

Exchange differences on translating foreign operations

Exchange differences on translating foreign operations include all foreign exchange gains/(losses) arising on translation of the financial statements of foreign subsidiaries of Grajewo OOO, of PLN (84) thousand.

(all amounts in PLN thousand)

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.

Dividends

The parent did not pay dividend in 2013.

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 2013 amounted to PLN 152,541 thousand (of which PLN 55,024 thousand related to continuing operations, and PLN 97,517 thousand to discontinued operations), whereas net profit attributable to ordinary shares for the financial year ended December 31st 2012 was PLN 49,815 thousand.

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 2013	**Jan 1– Dec 31 2012**
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 2013	**Jan 1– Dec 31 2012**
Earnings per share	3.07	1.00
Diluted earnings per share	3.07	1.00

(all amounts in PLN thousand)

21 Borrowings and other debt instruments

	Dec 31 2013	Dec 31 2012
Non-current liabilities		
Non-current portion of interest-bearing bank borrowings	86,801	149,381
Liabilities under borrowings from related parties	0	33,269
Total	**86,801**	**182,650**
Current liabilities		
Overdraft facility repayable in less than 12 months from the reporting date	26,652	2,171
Current portion of interest-bearing bank borrowings	41,078	526,277
Total	**67,730**	**528,448**

(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 bank borrowings. As at December 31 2013, liabilities under bank borrowings were PLN 154,531 thousand.

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

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

Lender	Currency	Interest rate	Maturity date	Security	credit limit	As at Dec 31 2013	
						Current portion	Non-current portion
Millenium S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	75,000	5,042	0
Millenium S.A.	PLN	1M WIBOR + margin	Jun 25 2016	mortgage	25,000	6,110	0
Alior Bank S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	75,000	0	0
Alior Bank S.A.	PLN	1M WIBOR + margin	Jun 25 2016	mortgage	25,000	4,491	0
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	45,000	0	0
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	Jun 25 2016	mortgage	15,000	5,905	0
Bank Ochrony Środowiska S.A.	PLN	1M WIBOR + margin	Jun 25 2018	mortgage	40,000	5,104	0
PKO Bank Polski S.A.	PLN	WIBOR + margin	2014-10-15	mortgage, registered pledge, assignments	-	4,000	0
PKO Bank Polski S.A.	PLN	WIBOR + margin	2018-10-15	mortgage, registered pledge, assignments	-	0	86,801
PKO Bank Polski S.A.	PLN	WIBOR + margin	2014-08-31	mortgage, registered pledge, assignments	-	37,078	0
						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 new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Parent and its subsidiaries for the next five years.

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

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

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

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

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

In addition, Pfleiderer MDF Sp. z o.o. has an investment credit facility from PKO BP S.A., repayable in instalments by October 15th 2018. As at December 31st 2013, the Group's debt outstanding under this facility was PLN 90,801 thousand (December 31st 2012: PLN 188.1m).

In addition, subsidiary Pfleiderer MDF Sp. z o.o. has contracted a PLN 65m multi-purpose credit facility with PKO BP S.A. The credit facility 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 multi-purpose facility amount was reduced to PLN 57,000 thousand and will be reduced by PLN 1000 thousand as at December 31 2011, December 31 2012, June 30 2013 (totally PLN 3000 thousand during credit transaction). Following the 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. On November 28th 2013, another amendment to the agreement was signed, under which the lending period was extended until August 31st 2014. As at December 31st 2013, the amount outstanding under the facility was PLN 37,079 thousand.

Syndicated credit facility agreement

On January 29th 2013, Pfleiderer Grajewo S.A., the Parent, finalised the early repayment of a part of the syndicated credit facility taken out by the Group under a credit facility agreement concluded on March 16th 2010 by and between the Parent and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. and a bank syndicate comprising Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A.

A part of the Parent's proceeds from the sale of shares in Pfleiderer OOO on January 23rd 2013 was used to repay a substantial portion of the syndicated credit facility. From January 24th to January 29th 2013, the Parent repaid the full tranche A of the syndicated credit facility, amounting to PLN 460,000,000, and on January 29th 2013 a part of tranche B of the syndicated credit facility, amounting to PLN 88,375,403, was repaid.

On March 18th 2013, the syndicated credit facility extended to Pfleiderer Grajewo S.A., the Parent, and its subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o., by a bank syndicate comprising Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A. was repaid in full. All securities related to the Facility have been released.

(all amounts in PLN thousand)

Terms and repayment schedules of the bank borrowings as at December 31st 2012:

						As at Dec 31 2012	
Lender	**Borrower**	**Currency**	**Interest rate**	**Maturity date**	**Security**	**Current portion**	**Non-current portion**
Syndicate of five banks Tranche B	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Mar 16 2013	mortgages, pledges	2,171	0
Syndicate of five banks Tranche A	Pfleiderer Grajewo S.A.	PLN	WIBOR + margin	Dec 30 2013	mortgages, pledges	455,083	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o	PLN	WIBOR + margin	Oct 15 2013	mortgage, registered pledge, assignments	38,725	0
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o	PLN	WIBOR + margin	Jul 15 2016	mortgage, registered pledge, assignments	0	149,381
PKO Bank Polski S.A.	Pfleiderer MDF Sp. z o.o	PLN	WIBOR + margin	Jun 30 2013	mortgage, registered pledge, assignments	32,469	0
						528,448	**149,381**

(all amounts in PLN thousand)

Liabilities under borrowings from related parties

	Dec 31 2013	Dec 31 2012
Borrowings from related parties	0	33,269
	0	**33,269**

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

As at December 31st 2012, borrowings from related parties comprised a PLN 8,802 thousand loan from Pfleiderer Service GmbH to finance day-to-day operations of Pfleiderer MDF Sp. z o.o., repayable on December 30th 2013, and a PLN 24,467 thousand loan to finance day-to-day operations of Pfleiderer Grajewo S.A., the Parent, repayable on June 20th 2013.

22 Employee benefit obligations

	Dec 31 2013	Dec 31 2012
Salaries and wages	3,496	3,226
Personal income tax	1,048	1,228
Social security	4,192	3,922
Social Benefits Fund	1,717	1,718
Retirement bonus obligations	8,329	7,356
Unused holiday entitlement obligations	3,571	3,178
Employee bonus obligations	7,699	5,219
Total	**30,052**	**25,847**
Non-current portion	8,020	7,111
Current portion	22,032	18,736
Total	**30,052**	**25,847**

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. The following assumptions were used:

- 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. Considering the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.

(all amounts in PLN thousand)

- The mortality rate was based on the likelihood of death depending on age, based on the 2012 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are generally accepted in Poland. It was assumed that the population of employees of the Group is characterised by 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 applied 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 bonuses or disability severance payments.
- 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 was assumed at 4.2%.

Employee bonus obligations

Employee bonuses comprise quarterly and annual bonuses paid to the Group's employees. They are recognised with respect to specific completed tasks in relation to which employees will receive payment in the future.

23 Provisions

	Provisions for settlements with employees	**Total**
As at Jan 1 2012	**634**	**634**
Increase	105	**105**
Release	0	**0**
As at Dec 31 2012	**739**	**739**
As at Jan 1 2013	**739**	**739**
Increase	47	47
Release	0	0
As at Dec 31 2013	**786**	**786**
Non-current portion	786	786
Current portion	0	0
	786	**786**

(all amounts in PLN thousand)

Provisions for settlements with employees

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

The provisions will be used starting in 2034.

24 Trade and other payables

	Dec 31 2013	Dec 31 2012
Trade payables	130,833	158,378
Trade payables to related parties	5,784	3,416
Liabilities under factoring agreements	37,462	17,418
VAT liabilities	154	106
Liabilities under investment deliveries	18,091	9,051
Prepaid deliveries	2,437	1,484
Liabilities related to shares acquired in a subsidiary	29,360	0
Other liabilities	16,139	7,259
Total	**240,260**	**197,112**

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 2013	Dec 31 2012
Trade payables	130,833	158,378
Trade payables to related parties	5,784	3,416
Liabilities under factoring agreements	37,462	17,418
Liabilities under investment deliveries	18,091	9,051
Liabilities related to shares acquired in a subsidiary	29,360	0
Other liabilities	13,641	6,620
Total	**235,171**	**194,883**

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, focusing in particular on the market risk, including the interest rate risk, currency risk, credit risk, and liquidity risk.

The objective behind credit risk management is to reduce the Group's losses which could follow from customers' insolvency. This risk is mitigated with the use of receivables insurance and factoring services. The 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 protect its cash flows. To manage the currency risk, it primarily relies on natural hedging and where necessary uses forward contracts. 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 and changes in interest rates.

Credit risk

In accordance with the Management Board's policy, credit risk exposure is monitored on an ongoing basis.

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

All customers who require credit in excess of a certain amount are evaluated in terms of credit worthiness. The Group does not require any security on customer assets.

The Group insures its trade receivables. As at December 31st 2013, ca. 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 resulting from failure to collect receivables from customers. Impairment losses are recognised on uninsured receivables, as well as the amounts corresponding to the Group's deductibles in relation to receivables insured, on the basis of a detailed analysis of the accounts receivable.

As at the reporting date, there was no significant concentration of credit risk. 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 2013	Dec 31 2012
Loans and receivables	90,387	52,316
Cash and cash equivalents	16,450	17,518
Other non-current financial assets − swaps	18,738	10
Total	**125,575**	**69,844**

As at December 31st 2013 and December 31st 2012, the ageing structure of trade receivables was as follows:

	Gross value	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
	90,031	**10,647**

	Gross value	Impairment loss
	Dec 31 2012	
Not overdue	22,855	229
Overdue by:		
0–180 days	31,854	4,332
180–360 days	308	127
More than 360 days	7,123	6,765
	62,140	**11,453**

Changes in impairment losses on trade receivables in the twelve months ended December 31st 2013 and December 31st 2012 are presented below.

	Jan 1–Dec 31 2013	**Jan 1–Dec 31 2012**
Balance at beginning of the period	11,453	10,950
Change in impairment losses	(806)	503
Balance at end of the period	10,647	11,453

(all amounts in PLN thousand)

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 under financial instruments bearing interest at floating rates only. As at the reporting date, the Group did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

	Dec 31 2013	Dec 31 2012
Variable-rate financial instruments		
Financial assets	0	0
Financial liabilities	191,993	728,516
	191,993	**728,516**

Analysis of the 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 set out below. The analysis presented below is based on the assumption that other variables, especially FX rates, remain unchanged. The following analysis refers to cash flows from continuing operations.

	Jan 1−Dec 31 2013		Jan 1–Dec 31 2012	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments	(5,449)	5,449	(7,285)	7,285
Difference in the amount of interest and effect on profit/loss before tax	(5,449)	5,449	(7,285)	7,285
Difference in the amount of interest and effect on net profit/loss	(4,414)	4,414	(5,901)	5,901
Effect on equity	0	0	0	0

Analysis of the 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, a change in interest rates would have no effect on the statement of comprehensive income through a change in the fair value of financial instruments.

Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of materials and goods for resale, and sale of finished products. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses mostly offset each other (natural hedging). The Group also makes capital expenditure in foreign currencies. The Group monitors its foreign currency positions on an ongoing basis and hedges open positions through forward transactions. Forward and swap transactions included purchase of foreign currency at a predetermined rate. In 2013, the Group used forward contracts to hedge its currency risk related to business transactions (exports of goods). The forward contracts used to hedge the Group’s business transactions provide for the sale of EUR at a predetermined 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 2013, the subsidiary Silekol Sp. z o.o. had four FX swaps (EUR/PLN) for the sale of a total of EUR 2,550 thousand in January and February 2014. As at December 31st 2013, the swaps were measured at PLN 100 thousand (fair value – level 2).

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

As at December 31st 2013, no other Group company was a party under derivative contracts.

(all amounts in PLN thousand)

Exposure to currency risk under financial instruments, expressed in the złoty (translated at the exchange rate effective at the end of the reporting period):

As at Dec 31 2013:	**EUR**	**USD**	**GBP**	**RON**	**RUB**
Trade receivables	47,422	0	0	0	0
Other receivables - escrow	26,957	0	0	0	0
Trade payables	(35,920)	0	0	(16)	0
Other liabilities	(29,601)	0	0	0	0
Balance-sheet exposure, gross	**8,858**	**0**	**0**	**(16)**	**0**
Transactions in derivative instruments	(10,575)	0	0	0	0
Net exposure under financial instruments	**(1,717)**	**(0)**	**0**	**(16)**	**0**

As at Dec 31 2012:	**EUR**	**USD**	**GBP**	**RON**	**RUB**
Trade receivables	14,376	45	0	0	0
Liabilities under borrowings and other debt instruments	(15,875)	0	0	0	0
Loans advanced	0	0	0	0	295,71
Trade payables	(33,783)	0	(294)	(14)	0
Borrowings received	(175,348)	0	0	0	0
Balance-sheet exposure, gross	**(210,630)**	**45**	**(294)**	**(14)**	**295,871**
Forward transactions	0	0	0	0	0
Net exposure under financial instruments	(210,630)	45	(294)	(14)	295,871
Trade receivables	14,376	45	0	0	0
Trade payables	(24,053)	0	(294)	(14)	0
Borrowings received	(24,467)	0	0	0	0
Net exposure under financial instruments – continuing operations	**(34,143)**	**45**	**(294)**	**(14)**	**0**

(all amounts in PLN thousand)

Analysis of sensitivity to exchange rate changes

A 5% change in the value of a foreign currency in relation to the 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 2013:	**+5%**	**-5%**
EUR	(86)	86
CHF	(1)	1
Effect on profit/loss before tax	(87)	87
Effect on net profit/loss	(70)	70
Effect on total equity	0	0

As at Dec 31 2012:	**+5%**	**-5%**
EUR	(1,707)	1,707
USD	2	(2)
GBP	(15)	15
RON	(1)	1
Effect on profit/loss before tax	(1,720)	1,720
Effect on net profit/loss	(1,393)	1,393
Effect on total equity	0	0

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

Currency	**Exchange rate as at Dec 31 2013**	**Exchange rate as at Dec 31 2012**
EUR	4.1472	4.0882
USD	3.0120	3.0996
RUB	0.0914	0.1017
RON	0.9262	0.9197

(all amounts in PLN thousand)

Liquidity risk

The table below presents an analysis of the Group's financial liabilities by maturity as at 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 2012	Carrying amount	Contractual cash flows	Below 6 months	6–12 months	1–2 years	2–5 years	More than 5 years
Overdraft facilities	2,171	2,204	2,204	0	0	0	0
Liabilities under borrowings and other debt instruments	709,357	780,115	95,799	483,671	93,081	107,565	0
Trade and other payables	194,833	194,833	194,833	0	0	0	0
	906,361	**977,152**	**292,836**	**483,671**	**93,081**	**107,565**	**0**

(all amounts in PLN thousand)

As at December 31st 2013, the Pfleiderer Grajewo Group's debt under bank borrowings totalled PLN 154.5m. It also had unused credit facilities of PLN 290.3m. The Group also held cash of PLN 16.5m.

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 2013 and December 31st 2012.

Capital management

The Group defines equity as the carrying amount of the equity including non-controlling interests. The key ratio applied by the Group to monitor equity is the ratio of equity to total assets. At the end of 2013, the ratio was 58.30%, up from 32.38% a year before.

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

	Dec 31 2013	Dec 31 2012
Equity	652,275	585,165
Total assets	1,118,793	1,807,032
Ratio		
Equity / *Total assets*	58.30%	32.38%

The Group did not pay dividend in 2013.

In addition, 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, until the amount of the statutory reserve funds reaches one-third of the Company's share capital.

(all amounts in PLN thousand)

26 Operating lease agreements

Pfleiderer Grajewo S.A., the Parent, entered into lease agreements concerning laminating and impregnating machines, two forklifts and two wheel loaders. The lease agreements expire in 2014, 2015, and H2 2016.

Pfleiderer Prospan S.A., a subsidiary, entered into lease agreements concerning impregnating machines, forklifts and electric vehicles, and wheel loaders. The lease agreements expire in 2015, 2016, and H2 2018.

The Group is also party to lease agreements executed by Pfleiderer MDF Sp. z o.o., a subsidiary, concerning the board packing machine and the lacquering line, which expire in January and March 2014. Pfleiderer MDF Sp. z o.o. is also party to lease agreements concerning electric vehicles, wood loader and forklifts. The lease agreements expire in December 2015.

The Group leases 40 company cars. The lease agreements expire in H2 2014, 2015, and 2016.

In 2013, the Group incurred costs under operating leases of PLN 7,279 thousand (2012: PLN 11,431 thousand).

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

	Dec 31 2013	Dec 31 2012
From 1 to 5 years	10,891	12,866
Up to one year	7,433	9,280
Total	**18,324**	**22,146**

27 Contractual commitments for the acquisition of property, plant and equipment and intangible assets

As at December 31st 2013, the Group carried liabilities under binding contracts as at the reporting date. The liabilities are related to 17 open investment contracts for a total amount of PLN 25,726 thousand.

28 Contingent liabilities

As at December 31st 2013, 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

Related-party transactions as at December 31st 2013:

Entity	Sales	Purchases	Finance costs	Investment commitments	Trade and other receivables	Trade payables
Pfleiderer Service GmbH	23	1,575	879	0	258	146
Pfleiderer GmbH	2	4,689	0	0	0	1,037
Pfleiderer Holzwerkstoffe GmbH & Co. KG	4,762	17,890	0	0	225	2,980
Pfleiderer Neumarkt GmbH	32,699	0	0	0	8,751	831
Pfleiderer Leutkirch GmbH	926	39	0	0	599	14
Pfleiderer Gütersloh GmbH	25,124	1,683	0	0	6,659	101
Jura Speditions GmbH	0	3,984	0	0	0	675
Pfleiderer Holzwerkstoffe Gschwend GmbH	0	0	0	498	0	0
Pfleiderer Arnsberg GmbH	982	0	0	0	14	0
Pfleiderer Baruth GmbH	55,106	0	0	0	18,173	0
Pfleiderer France S.A.S.	0	4	0	0	0	0
Pfleiderer B.V.	0	23	0	0	0	0
Pfleiderer Industrie Limited	0	18	0		0	0
Total	**119,624**	**29,905**	**879**	**498**	**34,679**	**5,784**
Discontinued operations						
Blitz	4,866	0	0	0	4,147	0
	4,866	**0**	**0**	**0**	**4,147**	**0**
Total	**124,490**	**29,905**	**879**	**498**	**38,826**	**5,784**

(all amounts in PLN thousand)

Related-party transactions as at December 31st 2012:

Entity	Sales	Other income	Other expenses**)	Finance costs**)	Purchases**)	Liabilities under borrowings**)	Prepaid deliveries	Trade receivables	Trade payables**)
Pfleiderer Service GmbH	0	131	0	1,846	3,947	33,269	0	0	497*
Pfleiderer GmbH (Pfleiderer Aktiengesellschaft)	8	0	0	7,928	4,173	150,881	0	0	4,737
Pfleiderer Schweiz AG	0	0	0	0	0	0	0	0	32
Pfleiderer Holzwerkstoffe GmbH & Co. KG	905	0	0	0	203	0	0	23	0
Pfleiderer Holzwerkstoffe Verwaltungs GmbH	0	0	0	0	0	0	0	28	0
Pfleiderer Neumarkt GmbH (Wodego GmbH)	29,608	0	0	0	474	0	0	992	45
Pfleiderer Lutkirch GmbH (Thermopal GmbH)	5,145	0	0	0	21	0	0	0	21
Pfleiderer Gütersloh Gmbh (Pfleiderer Industrie GmbH)	30,501	0	0	0	94	0	0	1,505	27
Jura Speditions GmbH	0	0	0	0	3,813	0	0	0	746
Pfleiderer Arnsberg GmbH (Duropal GmbH)	123	0	0	0	9,395	0	0	6	642
Pfleiderer Baruth GmbH (Kunz Faserplattenwerk Baruth GmbH)	38,939	0	0	0	0	0	0	5,043	0
Pergo (Europe) AB	210	0	0	0	0	0	0	0	0
Uniboard Canada Inc.	4	0	0	0	0	0	0	0	0
Pfleiderer France S.A.S.	0	0	0	0	2	0	0	0	2
Pfleiderer B.V.	0	0	0	0	29	0	0	0	6
Pfleiderer Industrie Limited	0	0	0	0	17	0	0	0	9
Blitz	0	0	5,261	0	0	0	0	0	8,607
Pfleiderer Engineering International GmbH	0	0	0	0	1,863	0	0	0	910
Total	**105,443**	**131**	**5,261**	**9,774**	**24,031**	**184,150**	**0**	**7,597**	**16,281**

*Trade payables of Pfleiderer Services include investment commitments of PLN 37 thousand.
** Following execution of the conditional agreement for the sale of 100% of shares in Pfleiderer OOO of Russia and disposal of Pfleiderer MDF OOO's assets. The Group classified the subsidiaries' assets as held for sale and their respective equity and liabilities as liabilities related to assets held for sale. As at December 31st 2012, both subsidiaries disclosed material related-party transactions of (enclosed in the table above):

- Other expenses: PLN 5,261 thousand
- Finance costs: PLN 7,734 thousand
- Purchases: PLN 1,508 thousand
- Liabilities under borrowings: PLN 150,881 thousand
- Trade payables: PLN 12,828 thousand

(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 was as follows:

Name	Jan 1– Dec 31 2013	Jan 1– – Dec 31 2012
Wojciech Gątkiewicz	2,555	932
Dariusz Tomaszewski	457	513
Rafał Karcz	1,568	453
Radosław Wierzbicki	1,055	543
	5,635	**2,441**

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

Name	Jan 1– Dec 31 2013	Jan 1– Dec 31 2012
Wojciech Gątkiewicz	874	905
Dariusz Tomaszewski	465	513
Rafał Karcz	434	428
Radosław Wierzbicki	275	513
	2,048	**2,359**

In addition, in 2013 Mr Rafał Karcz served as President of the Management Board, and Mr Dariusz Tomaszewski held the position of Member of the Management Board of Pfleiderer MDF Sp. z o.o., without receiving any remuneration for the services rendered.

As at December 31st 2013, Mr Dariusz Tomaszewski, member of the Management Board of Pfleiderer Prospan S.A., had outstanding debt of PLN 26 thousand, under a loan taken out in 1997 from the Privatisation Fund to finance the purchase of Prospan shares.

As at December 31st 2013, the other members of Parent's Management Board had no outstanding loan-related debt towards the Group.

As at December 31st 2013, the number of Pfleiderer Grajewo shares held by the members of the Management and Supervisory Boards was as follows:

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

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

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

(all amounts in PLN thousand)

The managerial contract between Pfleiderer Grajewo S.A. and Mr Wojciech Gątkiewicz, President of the Management Board, in effect as of January 1st 2012, provides for a six-month notice period.

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

	Jan 1 2013 Dec 31 2013	**Dec 1 2012 Dec 31 2012**
Woźniak Jan	105	91
Wolff Michael	210	157
Richard Mayer	105	0
Hammerschmidt Gerd	105	15
Schapka Jochen	105	78
Von Werder Hans - Kurt	17	71
Overdiek Hans	0	61
	647	473

As at December 31st 2013, 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.

30 Supplementary information to the consolidated statement of cash flows

Structure of cash and cash equivalents

	Dec 31 2013	**Dec 31 2012**
Cash in hand and at banks	16,450	17,518
Cash disclosed in the consolidated statement of cash flows	**16,450**	**17,518**

Change in liabilities

	Dec 31 2013	**Dec 31 2012**
Change in trade and other payables	43,149	(12,350)
Increase/(decrease) in investment liabilities	(9,040)	(1,904)
Settled prepayments	0	3116
Liabilities concerning acquisition of non-controlling interests	(30,322)	0
Provisions	(7,989)	0
Other	536	0
Change in liabilities	**(3,666)**	**(11,138)**

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.

During the proceedings, Pfleiderer Grajewo S.A. and Pfleiderer Prospan S.A., its subsidiary, provided additional information required by the Office. At present, the Pfleiderer Grajewo 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.

32 Events subsequent to the end of the reporting period

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

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

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

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

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

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 critical judgements in applying accounting policies is included in the following notes:

- Notes to the annual consolidated financial statements, Chapter 6, Section d (v) – 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.
- Note 3, 10 – Goodwill, recoverable goodwill, recoverable value 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),
- Nota 9 – 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 actuary. The valuation is based on assumptions regarding interest rates, remuneration increase, inflation rate, employment turnover rate,
- 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 – the 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 lease or operating lease on the basis of an analysis of risks and benefits.

Wojciech Gątkiewicz
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Ewa Stańska
Person responsible for the accounting records

Grajewo, April 25th 2014

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
IN THE PERIOD JANUARY 1ST −
DECEMBER 31ST 2013

PFLEIDERER GRAJEWO GROUP

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period Janaury 1st − December 31st 2013

Contents

1. Financial highlights

	PLN ‘000		EUR ‘000	
	Jan 1−Dec 31 2013	**Jan 1–Dec 31 2012**	**Jan 1−Dec 31 2013**	**Jan 1–Dec 31 2012**
Revenue	1,462,139	1,432,282	347,219	343,177
Operating profit	108,738	73,134	25,823	17,523
Profit before tax	80,680	18,321	19,159	4,390
Net profit attributable to owners of the parent	152,541	49,815	36,224	11,936
Net cash from operating activities	126 746	228,058	30 099	54,643
Net cash from investing activities	552 144	(27,723)	131 119	(6,642)
Net cash from financing activities	(679 958)	(192,646)	(161 472)	(46,158)
Total net cash flow	(1,068)	7,689,00	(254)	441
Basic earnings/(loss) per share	3.07	1.00	0.73	0.24
(PLN / EUR)			0.00	0.00
Diluted earnings/(loss) per share	3.07	1.00	0.73	0.24
(PLN / EUR)				
PLN/EUR average exchange rate			4,2110	4.1736

	PLN ‘000	**PLN ‘000**	**EUR ‘000**	**EUR ‘000**
	Dec 31 2013	**Dec 31 2012**	**Dec 31 2013**	**Dec 31 2012**
Total assets	1,118,793	1,807,032	269,771	442,012
Liabilities	466518	1,221,867	112,490	298,877
Non-current liabilities	134647	225,978	32,467	55,276
Current liabilities	331871	995,889	80,023	243,601
Equity	652275	585,165	157,281	143,135
Share capital	16,376	16,376	3,949	4,006
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000
Book value per share (PLN/EUR)	13.14	11.79	3.17	2.88
PLN/EUR exchange rate as at the reporting date			4.1472	4.0882

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period Janaury 1st − December 31st 2013

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, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On September 18th 2002, the Company's Management Board received the decision of the District Court of Białystok to enter the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Parent's name was changed to Pfleiderer Grajewo S.A. The registered office of Pfleiderer Grajewo S.A. is situated at ul. Wiórowa 1, Grajewo, Poland. Parent's shares are publicly traded. In accordance with the Polish Classification of Business Activities, Pfleiderer Grajewo S.A. is registered under No. 1621 Z. Tax Identification Number (NIP): 719-10-00-479, Industry Identification Number (REGON): 450093817.

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

The business of Pfleiderer Grajewo S.A., the Parent, consists 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, XX Division of the National Court Register under entry No. KRS: 0000042082.

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

Business profile:

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

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

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

Business profile:

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

- manufacture of dyes and pigments,
- manufacture of other organic and inorganic chemicals,
- manufacture of paints and varnishes,
- manufacture of glues and gelatines.

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

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

Business profile:

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

Jura Polska Sp. z o.o. – entered in the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under No. KRS 149282, on November 24th 1999.

Industry Identification Number (REGON):	276746151
Tax Identification Number (NIP):	629-215-85-14
Registered office:	ul. Wiórowa 1, 19-203 Grajewo, Poland

Business profile:

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

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

Industry Identification Number (REGON):	200021250
Tax Identification Number (NIP):	719-149-38-49
Registered office:	ul. Bolesławiecka 10, 98-400 Wieruszów, Poland

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

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

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

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period Janaury 1st − December 31st 2013

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:	5321135070
Registered office:	21/43 Studenitzeskaya Street, Veliky Novgorod, Russia

The company conducts trading activities in Russia.

<u>List of jointly controlled entities</u>

HRB Registry Number:	28 166
Tax Identification Number:	201/116/21366
Registered office:	Ingolstädter Strasse 51, Neumarkt, Germany

Business profile:

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

- 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 conducts operations in Russia. The other companies provide services and supply raw materials to the Group entities.
Information on the other entities' business profiles and inclusion of the entities in consolidation is presented in the notes to the annual consolidated financial statements.

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period Janaury 1st − December 31st 2013

As at the end of the reporting period, the composition of the Parent's Management Board was as follows:

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

On June 26th 2013, Radosław Wierzbicki resigned from the position of Member of the Management Board, Operational Director of Pfleiderer Grajewo S.A. Simultaneously, Mr Radosław Wierzbicki resigned from the position of Member of the Management Board of Pfleiderer Prospan S.A. and Member of the Management Board of Pfleiderer MDF Sp. z o.o. (both companies are subsidiaries of Pfleiderer Grajewo S.A.).

The same persons comprising the Parent's Management Board also managed the operations of its subsidiary, Pfleiderer Prospan S.A. of Wieruszów.

The table below presents the composition of the Management Boards of the other subsidiaries as at December 31st 2013:

	Jura Polska Sp. z o.o.	**Pfleiderer MDF Sp. z o.o.**	**Silekol Sp. z o.o.**	**Grajewo OOO**
President	Krzysztof Brzostek	Rafał Karcz	Janusz Zowade	-
Members	-	Dariusz Tomaszewski	Marek Filusch	-
Managing Director	-	-	-	Robert Sotirow

As at December 31st 2013, Unifloor did not have the Management Board as the company was in the process of liquidation. The company’s liquidator is Mr Ryszard Gruszka.

As at December 31st 2013, the composition of Parent's Supervisory Board was as follows:

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

On February 12th 2013, Mr Hans-Kurt von Werder resigned from the position of Member of Parent's Supervisory Board, effective from February 26th 2013.

In accordance with a resolution of the Extraordinary General Meeting, on February 26th 2013 Mr Richard Mayer was appointed Member of Parent's Supervisory Board.

3. Structure of the Group as at December 31st 2013

From January 1st to December 31st 2013, Pfleiderer Grajewo S.A. was the parent of the following entities:

Subsidiaries

1 Pfleiderer Prospan S.A., Wieruszów
2 Silekol Sp. z o.o., Kędzierzyn-Koźle,
3 Pfleiderer MDF Sp. z o.o., Grajewo
4 Jura Polska Sp. z o.o., Grajewo
5 Unifloor Sp. z o.o., Wieruszów (in liquidation)
6 Pfleiderer OOO, Novgorod (Russia) – subsidiary until January 23rd 2013
7 Pfleiderer MDF OOO, Novgorod (Russia) – subsidiary until January 23rd 2013
8 Grajewo OOO, Novgorod (a newly established company)
9 Pfleiderer Services Sp. z o.o., Grajewo

Jointly controlled entities

10 Blitz 11-446 GmbH, Neumarkt

Associates

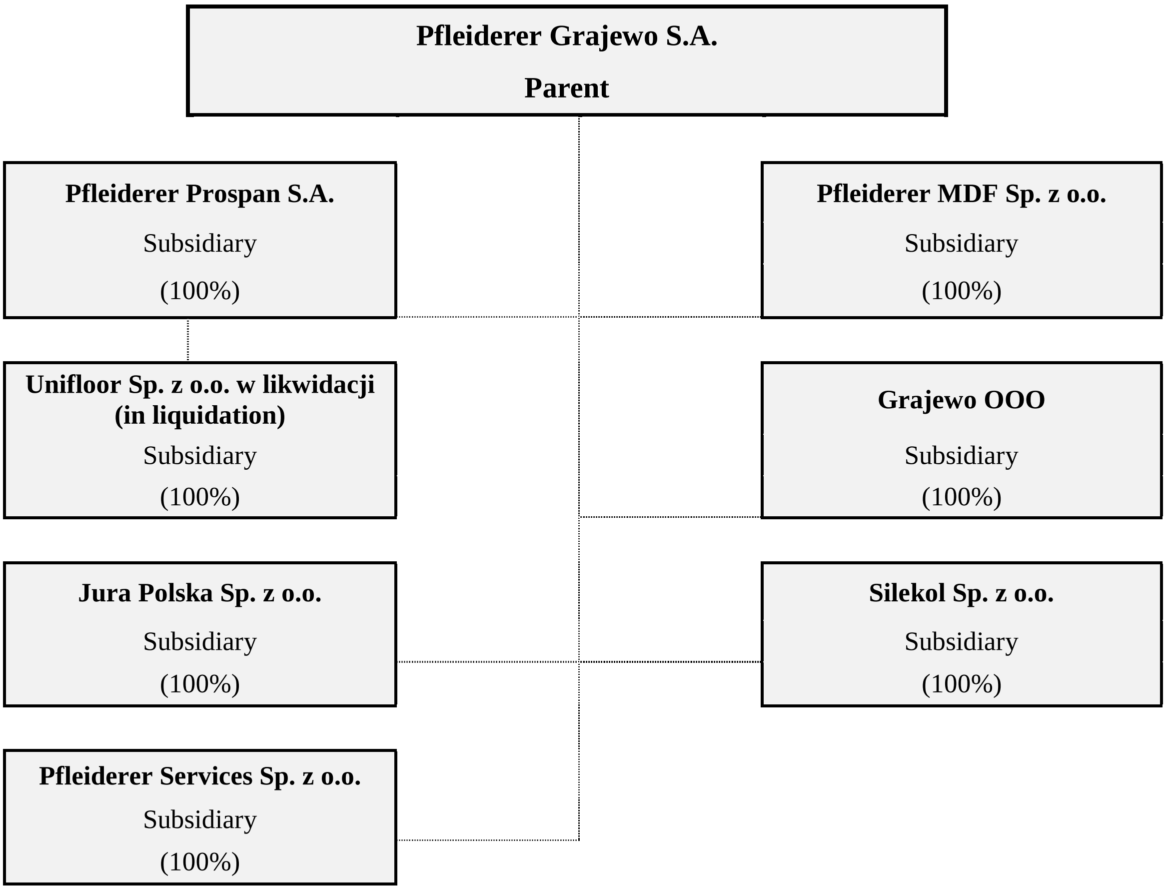
11 Pfleiderer MDF OOO of Novgorod (Russia) – associate from January 23rd to December 30th 2013

(5) indirectly through Pfleiderer Prospan S.A.
(6) sale of shares on January 23rd 2013.
(7), (11) sale of assets and loss of control on January 23rd 2013.
(11) sale of shares on December 30th 2013.
(8) purchase of shares on April 16th 2013.

PFLEIDERER GRAJEWO GROUP

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period Janaury 1st − December 31st 2013

Structure of the Group as at December 31st 2013



<u>Changes in the Group's structure in the reporting period</u>

As at December 31st 2013, Pfleiderer Grajewo S.A., the Parent, had full control of 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.

On January 23rd 2013, Pfleiderer Grajewo S.A., as the seller, and Ingka Pro Holding Subholding I B.V. and SWEDSPAN Holding B.V., as the buyers, entered into an agreement for sale of a 100% interest in Pfleiderer OOO of Russia as well as the assets belonging to Pfleiderer MDF OOO, its subsidiary in Russia and joint venture Blitz 11-446 GmbH in Germany Under the agreements, the Pfleiderer Grajewo Group lost control over the subsidiary Pfleiderer MDF OOO. The loss of control was due to the loss of the right to appoint the majority of board members, in effect Pfleiderer MDF OOO after the date of January 23 was an associate of the Pfleiderer Grajewo Group. In addition, under an agreement of December 30th 2013 the Group sold its shares in associate Pfleiderer MDF OOO.

On April 16th 2013, Pfleiderer Grajewo S.A., the Parent, purchased from BI_EL-SI of Russia 100% of shares in Grajewo OOO for EUR 2 thousand (EUR 9 thousand).

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period Janaury 1st − December 31st 2013

On December 27th 2013, Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Holzwerkstoffe GmbH of Neumarkt, Germany, as the seller, signed an agreement for the purchase of shares in subsidiary Silekol Sp. z o.o. of Kędzierzyn Koźle. Under the agreement, Pfleiderer Grajewo S.A. purchased 22,700 non-preference shares in the share capital of Silekol Sp. z.o.o., with a par value of PLN 1,000 per share. The shares represent 50% of Silekol Sp. z.o.o.'s share capital and confer the right to 50% of the total vote at its general meeting.

The purchase price for the shares amounted to EUR 22,433 thousand (an equivalent of PLN 93,123 thousand). The ownership title to the shares was transferred to Pfleiderer Grajewo S.A. on the purchase price payment date, December 27th 2013. As at December 31st 2013, Pfleiderer Grajewo S.A. held 100% of the share capital of Silekol Sp. z o.o.
The purchase was financed with Pfleiderer Grajewo S.A.’s own funds and proceeds from credit facilities.
Pfleiderer Holzwerkstoffe GmbH is a subsidiary of Pfleiderer GmbH of Düsseldorf, which is an indirect parent of Pfleiderer Grajewo S.A.

On December 27th 2013, Pfleiderer Grajewo S.A. acquired 200,000 newly issued shares in the increased share capital of subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo, with a par value of PLN 500 per share.

The shares were issued pursuant to a resolution on a PLN 100,000 thousand increase of the company’s share capital, passed by an Extraordinary General Meeting of Pfleiderer MDF Sp. z o.o. on December 27th 2013.

Pfleiderer Grajewo S.A. acquired the shares in exchange for a cash contribution of PLN 100,000 thousand. The acquisition was financed with Pfleiderer Grajewo S.A.’s own funds.

On December 27th 2013, Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Service GmbH of Neumarkt, Germany, as the seller, signed a preliminary agreement for the purchase of shares in subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo.

The preliminary purchase agreement concerned 135,328 non-preference shares with a par value of PLN 500 per share. The condition of conclusion of the promised agreement was a registration of the increased share capital of Pfleiderer MDF Sp. Z o.o.. Both payment on account of the increased share capital, as well as an application for registration of the increase took place before the balance sheet date. Therefore, the decision of the court on the registration, which took place on 20 January 2014, has been recognized only as a formal condition, which had no effect on acquisition of non-controlling interests.
The purchase price for the shares amounted to EUR 6,988 thousand (an equivalent of PLN 29,070 thousand).
After the purchase of the shares from Pfleiderer Service GmbH, Pfleiderer Grajewo S.A. held 100% of Pfleiderer MDF Sp. z o.o.’s share capital. Pfleiderer Service GmbH is the parent of Pfleiderer Grajewo S.A.

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

Shareholder structure as at April 25th 2014	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Pfleiderer Service GmbH	32,308,176	65.11%	32,308,176	65.11%
Aviva OFE Aviva BZ WBK	4,928,816	9.93%	4,928,816	9.93%
ING OFE	2,639,144	5.32%	2,639,144	5.32%
Other shareholders	9,747,864	19.64%	9,747,864	19.64%
Total	**49,624,000**	**100.00%**	**49,624,000**	**100.00%**

In the period from January 1st 2013 to the date of this Directors' Report on the Operations of the Pfleiderer Grajewo Group, the number of Parent shares held by its main shareholder, Pfleiderer Service GmbH, did not change.

The information on the number of Pfleiderer Grajewo S.A. shares held by Aviva 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 shareholder structure.

5. External and internal factors with a bearing on the Group’s business

External factors with a bearing on the Group’s business:

- Broader collaboration with customers, which is 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, mitigating the customer insolvency 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 for this reason do not have an adverse impact on the Group’s competitive position.
- Currency risk – the Group does not incur 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 fall in the second quarter of a year, while a sales peak is observed 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 relatively stable over the second quarter.

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 that risk, the Group uses a number of technical and organisational safeguards.
- Debt risk – as the parent of the other Group members, Pfleiderer Grajewo S.A. bears all the burdens related to the financing of investment projects. The debt is monitored on an ongoing basis. To mitigate the liquidity risk, the Group uses a full spectrum of available financial instruments.

6. Current and future activities of the Group

a) Plans and development prospects for 2014

- Promotion and development of new products – expanding the offer addressed to new customers, in particular the interior design and construction markets.
- Review of quality and technical parameters of selected customised products and work on shortening delivery dates.
- Expansion onto European markets.
- Implementation of new technical systems and restructuring of the Group through further optimisation of the production processes and a cost savings programme.
- improvement of liquidity and reduction of borrowing costs.
- Promotion of the Pfleiderer brand as a modern and continuously developing organisation, which implements state-of-the-art technologies and respects the natural environment.
- Modernisation of the production plant and equipment in order to ensure the highest quality of products and enhancement of production efficiency.

b) In 2013, the efforts of Pfleiderer Grajewo S.A. were focused on the following tasks:

1. Enhancing efficiency and production processes through tight cost control.
2. Improving the quality of products and services.
3. Analysis of production and sales volumes and adjusting them to current market demand.
4. Optimisation efforts designed to improve the Group entities’ operating efficiency.
5. Securing of wood supplies.
6. Ensuring financial liquidity of the Group – raising new financing.
7. Promoting the Company’s image as a financially stable and reliable business partner.
8. Strengthening of Pfleiderer’s market position by promoting the Company's brand and vision.
9. Market launch of a new product – tongue and groove board.
10. 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.
11. Analysis of the Group’s external environment with a view to developing a new model of cooperation with customers. The purpose of the project is to increase sales on existing and new markets and shorten delivery dates.
12. Expansion and consolidation of the dealership network, creation of standardised visual identification for Pfleiderer Partner sale outlets.
13. Closing of the sale of shares in Pfleiderer OOO and assets owned by Pfleiderer MDF OOO, a Russian subsidiary, and Blitz 11-446 GmbH, a German jointly controlled entity.
14. Acquisition of minority interests in subsidiaries. Capital increase at Pfleiderer MDF Sp. z o.o.
15. Acquisition of a new subsidiary in Russia, engaged in trading activities.

7. 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

7.1 Financial standing of the Pfleiderer Grajewo Group

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

all amounts in PLN thousand	**31.12.2013**	**Dec 31 2012**
Equity (attributable to owners of the parent)	652,275	527,392
Non-controlling interests	0	57,773
Total equity	652,275	585,165
Non-current liabilities	134,647	225,978
Long-term capital (total equity + non-current liabilities)	786,922	811,143
Current liabilities	331,967	995,889

The Pfleiderer Grajewo Group finances its operations primarily with 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 new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Parent and its subsidiaries for the next five years.

Moreover, the Pfleiderer Grajewo Group supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. z o.o. The above financing was available for Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o of up to total PLN 200m .

The factoring agreement signed with Pekao Factoring Sp. z o.o. by the subsidiary Pfleiderer Prospan S.A. was in force until February 28th 2014. The agreement was terminated on January 30th 2014. On the same day, subsidiary Pfleiderer Prospan S.A., executed a new factoring agreement with BZ WBK Faktor Sp. z o.o. for non-recourse financing of trade receivables, with a limit of PLN 80,000 thousand. Additionally, Silekol has an agreement with a limit of PLN 15m. Collection of the receivables acquired by the factor is secured with an assignment of rights under the receivables insurance agreements.

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

7.2 Workforce and remuneration at the Pfleiderer Grajewo Group

As at December 31st 2013, the Group employed 1,272 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 last day of the reporting period was as follows:

Employees	Dec 31 2013	Dec 31 2012
- direct production employees	663	802
- indirect production employees	272	405
- administration, office and other employees	337	418
Total	**1,272**	**1,625**

Workforce at Group companies:

Company	Workforce in 2013	Employees directly involved in production	Employees indirectly involved in production	Administration, office and other employees
Pfleiderer Grajewo S.A.	575	278	131	166
Pfleiderer Prospan S.A.	425	211	116	98
Grajewo OOO	2	0	0	2
Jura Polska Sp. z.o.o.	29	10	0	19
Silekol Sp. z.o.o	90	47	25	18
Pfleiderer MDF Sp. z o.o.	151	117	0	34
Unifloor Sp. z.o.o.	0	0	0	0
Total	**1,272**	**663**	**272**	**337**

Remuneration paid to the members of the Pfleiderer Grajewo Management Board, including bonuses, in the period January 1st – December 31st 2013 was as follows:

1. President of the Management Board - Wojciech Gątkiewicz PLN 2,555 thousand
2. Member - Rafał Karcz PLN 1,568 thousand
3. Member - Dariusz Tomaszewski PLN 457 thousand
4. Member - Radosław Wierzbicki PLN 1,055 thousand

The same persons serve on the Management Board of the subsidiary Pfleiderer Prospan S.A. The remuneration of the members of the Pfleiderer Prospan Management Board for the same period was as follows:

1. President of the Management Board - Wojciech Gątkiewicz PLN 875 thousand
2. Member - Rafał Karcz PLN 434 thousand
3. Member - Dariusz Tomaszewski PLN 465 thousand
4. Member - Radosław Wierzbicki PLN 275 thousand

The managerial contract executed by the Parent with Mr Rafał Karcz, member of the Management Board, contains a provision entitling Mr Karcz to a one-off termination benefit equal to his one-month remuneration if the contract is terminated by notice.
The managerial contract executed by the subsidiary Pfleiderer Prospan S.A. with Mr Dariusz Tomaszewski, member of the Management Board, contains a provision entitling Mr Tomaszewski to a

one-off termination benefit equal to his one-month remuneration if the contract is terminated by notice.

The managerial contract with Mr Wojciech Gątkiewicz, President of the Management Board, provides for a six-month notice period.

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

PLN ‘000

	Dec 1 2013 Dec 31 2013	Dec 1 2012 Dec 31 2012
Richard Mayer	105	0
Overdiek Hans H.	0	61
Hammerschmidt Gerd	105	15
Schapka Jochen	105	78
Von Werder Hans- Kurt	17	71
Wolff Michael	210	157
Woźniak Jan	105	91
	647	473

As at December 31st 2013, the members of the Management and Supervisory Boards of Pfleiderer Grajewo S.A. had no outstanding debt to the Parent under loans. At Pfleiderer Prospan S.A., one member of its Management Board, Mr Dariusz Tomaszewski, had an outstanding debt of PLN 26 thousand as at December 31st 2013. 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.

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

As at the date of this Report, the Management Board members had the following shareholdings in Pfleiderer Grajewo S.A.:

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

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

8. Production and sales structure

8.1 Production volume and structure

In 2013 and 2012, the production volumes of the four main product groups at the three Polish companies (Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o.) were as follows:

		Dec 31 2013	Dec 31 2012
Gross production of raw chipboards	ths sqm	1,111	1,048
Melamine-faced chipboards	ths sqm	35,290	34,871
Raw MDF boards	ths sqm	226	197
Lacquered MDF boards	ths sqm	29,575	26,717

In 2013, the production of raw and melamine-faced chipboard increased slightly. The Group highly used its raw chipboard production capacity .
Compared with 2012, 2013 saw an 11% increase in the production of lacquered MDF board.

8.2 Sales volume and structure

Revenue reported by the Group in 2013 was PLN 1,462,139 thousand, up 2% on 2012.

The Group's export sales in 2013 improved significantly, having increased by 6.7% year on year.
The table below present an analysis of revenue by products, goods, materials, and services.

By product group	**Jan 1 − Dec 31 2013**	**% share**	**Jan 1 – Dec 31 2012**	**% share**
Revenue from sales of products	**1,392,761**	**95.2%**	**1,375,883**	**96.1%**
Chipboard	898,621	61.5%	804,452	56.2%
MDF boards	126,675	8.7%	197,742	13.8%
Glues	230,056	15.7%	215,723	15.1%
Other	137,409	9.3%	157,965	11.0%
Revenue from sales of materials	**9,816**	**0.7%**	**4,538**	**0.3%**
Revenue from sales of merchandise	**24,237**	**1.7%**	**22,696**	**1.6%**
Revenue from rendering of services	**35,325**	**2.4%**	**29,165**	**2.0%**
Total sales	**1,462,139**	**100.0%**	**1,432,282**	**100.0%**

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

By product group (thousand m3)	**2013**	**2012**
Chipboard	1,064.3	1,509.8
MDF boards	220.1	194.6
Total product sales volume	1,284.4	1,704.4

The furniture industry continues to be the most important sector for Pfleiderer Grajewo Group as it accounts for 90% of its 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. Sales to industrial customers
2. Sales to the Pfleiderer Partner dealership network (PP network)
3. Export sales

The Group’s sales data comprises sales of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., and Pfleiderer MDF Sp. z o.o. The Group’s sales by distribution channels in 2012–2013 were as follows:

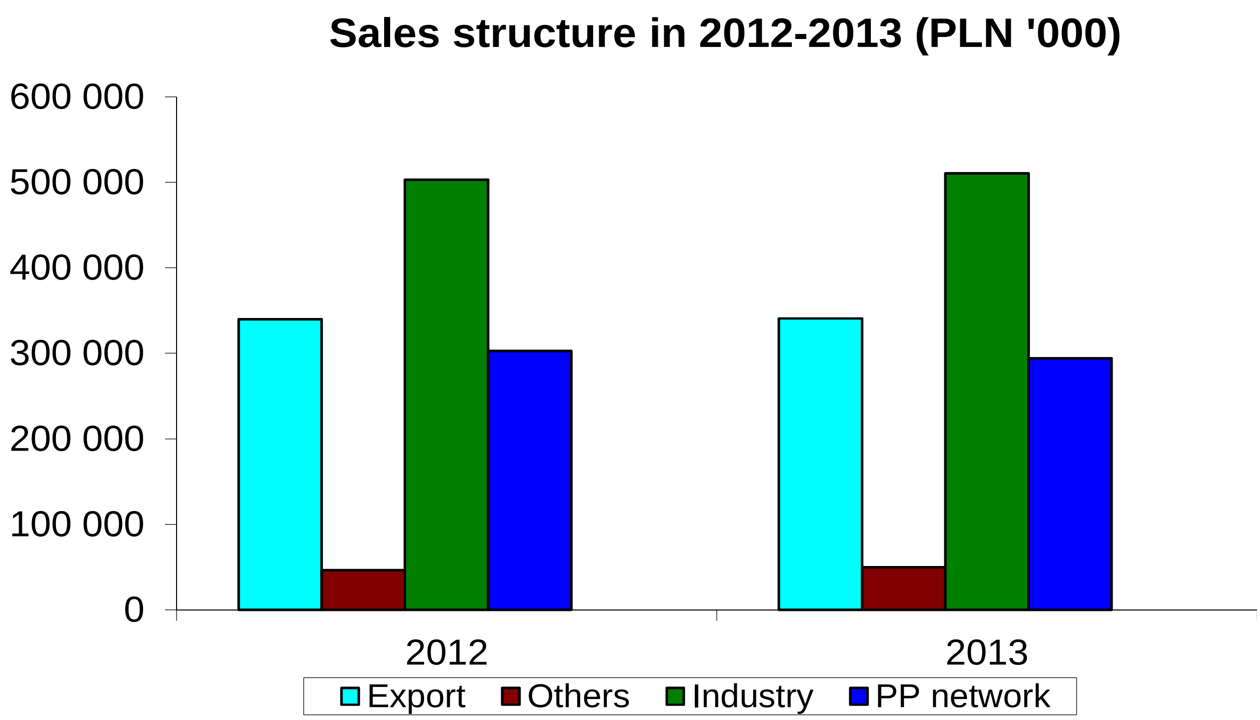


Figure: Sales structure in 2012-2013 (PLN '000)

In the Polish market, direct sales to large and medium-sized furniture manufacturers and the Pfleiderer Partner network continued to represent the most important distribution channels. Compared with the previous year, the value of 2013 sales to large furniture manufacturers grew by 2%, while the value of sales to the Pfleiderer Partner network declined by 3%. Sales to other domestic distribution channels grew by 7%. Export sales remained unchanged in the reporting period.
The shares of individual distribution channels in the structure of sales in 2013 relative to 2012 changed as follows: The share of direct sales to large and medium-sized furniture manufacturers increased from 42.2% to 42.7%, and the share of sales through other distribution channels rose from 3.9% to 4.2%.

The share of sales to the Pfleiderer Partner network fell from 25.4% to 24.6%. The share of exports in total sales improved year on year.

9. Procurement

In 2013, 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. Forest wood represented 37% of all supplies, while by-products of the wood processing industry accounted for 54% of the total. The share of wood waste in total supplies continued to rise, to reach 9% in 2013.
The shares of individual product groups in total supplies varied slightly between the plants, due to their different production profiles, local market conditions, and the current pricing of various raw materials.
Supplies of wood from Poland prevailed (87% of total purchases), with imports representing the remaining 13% of wood supplies.

10. 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 Group's cost base. 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, particularly at the Parent. 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 2012 and 2011, the Group earned the following sales margins:

	Jan 1-Dec 31 2013	Jan 1-Dec 31 2012*)
Net profit / Revenue	5.5%	1.3%

	Jan 1-Dec 31 2012	Jan 1-Dec 31 2012*)
Net profit (attributable to owners of the parent) / Revenue	3.76%	0.8%

*) 2012 includes data for continuing operations.

11. Use of bank borrowings

PLNm	Dec 31 2013	Dec 31 2012
Debt under bank borrowings	155	678
Intra-Group loans	0	33
Cash	16	18
Net debt under bank borrowings	**139**	**660**

a) 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 new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Parent and its subsidiaries for the next five years.

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

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

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

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

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

In addition, Pfleiderer MDF Sp. z o.o. has an investment credit facility from PKO BP S.A., repayable in instalments by October 15th 2018. As at December 31st 2013, the Group's debt outstanding under this facility was PLN 90,801 thousand (as at December 31st 2012: PLN 188.1m).

In addition, the subsidiary Pfleiderer MDF Sp. z o.o. has taken out a PLN 65m multi-purpose credit facility from PKO BP S.A. The credit facility 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 annex signed on March 23rd 2009, the multi-purpose facility amount was reduced to PLN 57,000 thousand and will be reduced by PLN 1000 thousand as at December 31 2011, December 31 2012, June 30 2013 (totally PLN 3000 thousand during credit transaction). Following the 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. On November 28th 2013, another annex to the agreement was signed, under which the lending period was extended until August 31st 2014. As at December 31st 2013, the amount outstanding under the facility was PLN 37,079 thousand.

Interest rates on the above loans was WIBOR + bank margin.

b) Syndicated credit facility agreement

On January 29th 2013, Pfleiderer Grajewo S.A., the Parent, made an early repayment of a part of the syndicated credit facility extended to the Group under a credit facility agreement concluded on March 16th 2010 by the Parent and its subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o., with a bank syndicate comprising Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A.
A part of the Parent's proceeds from the sale of shares in Pfleiderer OOO on January 23rd 2013 was used to repay a substantial portion of the syndicated credit facility. From January 24th to January 29th 2013, the Parent repaid the full tranche A of the syndicated credit facility, amounting to PLN 460,000,000, and on January 29th 2013 a part of tranche B of the syndicated credit facility, amounting to PLN 88,375,403, was repaid.

On March 18th 2013, the syndicated credit facility extended to Pfleiderer Grajewo S.A., the Parent, and its subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o., by a bank syndicate comprising Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., BNP Paribas Bank Polska S.A. (formerly Fortis Bank Polska S.A.) and Bank Gospodarki Żywnościowej S.A. was repaid in full. All security interests related to the Facility have been released.

c) Borrowings from related parties

Financing of the Pfleiderer Grajewo Group by Pfleiderer Germany is based on subordinated loans. All the loans were repaid in 2013. As at December 31st 2013, the Group did not carry any loans from related parties.

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

As at December 31st 2013, no such events occurred.

13. Feasibility of Pfleiderer Grajewo Group's investment plans for 2013

In 2013, the Pfleiderer Grajewo Group made capital expenditure of PLN 66.3m.

PFLEIDERER GRAJEWO S.A.

Operating expenditure in 2013: planned expenditure – PLN 54.9m; actual expenditure – PLN 18.9m.
In 2013, the construction of a wood dust mill was completed, with the dust produced by the mill replacing heavy fuel oil as the fuel for dryers – PLN 4.3m.
Commencement of the sorting plant upgrade: project's total value – PLN 20m; expenditure (excluding prepayments) made in 2013 – PLN 3.3m.
Construction of the wood chip transport system from MDF to Grajewo – PLN 2.9m; the project is to be completed in 2014.
Purchase of a small panel saw for cutting small-sized boards − PLN 0.9m.
Purchase of a wheel loader − PLN 1m.

The capital expenditure planned for 2014 is PLN 46.3m. The key investment projects envisaged for 2014 include:
Upgrade of the wood shavings sorting plant − PLN 11.8m (completion of the project commenced in 2013); purchase and assembly of a wood recycling line – PLN 10m; replacement of steel belts on the press − PLN 2m; improvement of the heating efficiency of the press – PLN 1m; purchase of a new burner for the dryer – PLN 1.6m.
These investment projects will increase production capacity, help optimise production costs, and improve product quality.

PFLEIDERER PROSPAN S.A.

Operating expenditure in 2013: planned expenditure – PLN 40.4m; actual expenditure – PLN 28.4m.

In 2013, the project involving the purchase and assembly of a large board lamination press was completed; expenditure made in 2013 − PLN 20.1m (the amount invoiced in 2013); production of large-sized laminated boards was launched in August 2013. The total cost of the project was PLN 21m.

In 2013, worn technological equipment was replaced; a large wood loader was purchased – PLN 1m; a warehouse forklift truck was replaced − PLN 0.7m.

Upgrades were also performed on the existing KT-5 laminated board line – PLN 1.4m, and on the milling line – PLN 0.2m.

The capital expenditure planned for 2014 is PLN 36.9m. The key investment projects envisaged for 2014 include:
Upgrade of the wood shavings sorting plant − PLN 10m, upgrade of bunkers on loading stations − PLN 4.5m, grinder upgrade − PLN 2m; these projects, when completed, will increase chipboard production volume.
Replacement investments will also be made, including replacement of steel belts on the press − PLN 3m, and replacement of the central control unit for the press − PLN 3m.

Commencement of the construction of a new biomass-fired boiler room is also planned (expenditure planned for 2014 – PLN 3m, the project's total cost − PLN 30m).

SILEKOL Sp. z o.o.

Operating expenditure in 2013: planned expenditure – PLN 13.2m; actual expenditure – PLN 14.8m.

In 2013, two large capex projects were implemented:
Expansion of the formaldehyde unit to increase production capacity; total value of the project − PLN 11m; expenditure made in 2013 − PLN 7.4m.
Expansion of the resins production units to increase production capacity and expand the product range (ability to manufacture new products); total value of the project – PLN 4.2m; all expenditure made in 2013.

The launch of production on the units undergoing expansion is planned for the first quarter of 2014.

The capital expenditure planned for 2014 is PLN 4.1m. The key investment projects envisaged for 2014 include: upgrade of the cold and cooling water system − PLN 1.3m, a first-stage wastewater treatment plant for the adhesives unit − PLN 0.4m, and other replacement investments.

PFLEIDERER MDF Sp. z.o.o.

Operating expenditure in 2013: planned expenditure – PLN 5.4m; actual expenditure – PLN 4.2m.

In 2013, a third printer for the HDF board lacquering line was purchased − PLN 1m; the project will be completed in 2014. New process equipment was purchased: two warehouse forklift trucks − PLN 0.9m, a bucket loader for wood − PLN 1m; other expenditure of PLN 1.3m was made mainly on other minor operating projects (e.g. mechanical sealings for the defibration unit, replacement of compressors, upgrade of the centring system on stackers).

In 2014, capital expenditure is planned at PLN 26.9m. A package of investment projects was prepared to enhance margins earned on products.
The investment projects include purchase and assembly of a new lacquering line, panel saw, grinder, and confectioning.

14. Marketing activities in 2013

Marketing objectives:

– Positioning Pfleiderer as a premium brand;
– Enhancement of the Pfleiderer brand recognition in new segments (architects, designers and end users);
– Entry on the investment market;
– Strengthening Pfleiderer's position in local markets;
– Strengthening our position in the construction market;

a) Objectives achieved in the furniture and interior design market

Product policy

- Market launch of new collection of decors, melamine-faced chipboard structures and kitchen worktops;
- Continued development of new products while reducing the number of slow-moving products; active management of the product portfolio;

Communications policy

Introduction of the new PFL/Pfleiderer model of communication with the market;

- Development and implementation of a new creative line;
- Streamlining of the brand and sub-brand portfolio;
- Intensification of advertising and PR activities in the press and on the Internet, with special focus on Pfleiderer kitchen worktops;
- Implementation of kitchen worktop sales support programme for manufacturers cooperating with the Pfleiderer Partner network;
- Launch of a new corporate website;
- Social media activity: the designerer.com page on Facebook, and a thematic blog;
- Participation in events for architects and designers: Łódź Design Festival and 'Noc z Designem we Wrocławiu' (Design Night in Wrocław);
- Promotion of new products offered by Pfleiderer, fitted in the finished furniture products presented at the MEBLE furniture trade fair in Poznań; Pfleiderer's press conference during the arena DESIGN event;
- Continuation of the 'Pfleiderer Inspirations' mailing campaigns;
- Active PR efforts and advertising initiatives were focused mainly on presenting inspiring solutions for home interiors and general public buildings;
- Organisation of meetings with key customers from both domestic and exports markets;
- Participation in regional fairs and events organised by the Pfleiderer Partner network in Poland and abroad;
- Product launch;
- Joint projects with higher education institutions: the PE-P project (organised together with the Adam Mickiewicz University of Poznań) and 'Ćwiartka dla studenta' (A Quarter Square Metre for a Design Student) (organised together with the Academy of Art and Design of Wrocław).
- Using the Group'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);

b) Activities in the construction market

Product policy

- Market launch of the tongue and groove board

Communications policy

Intensive promotion of the new mfp® construction board brand in the contractor, investor and end-user segments of the market:
- Billboard promotional campaign for the mfp® brand;
- Promotion of the brand on the RMF FM radio station, active PR and Internet promotional campaigns;

Participation in the BUDMA Poznań fair together with a trade partner;
- 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 organised together with the Castorama retail chain;
- Active PR activities in trade magazines and websites;
- Creation of a new sub-page dedicated to the construction industry and development market.
- Organisation of meetings with customers;
- Product launch;
- Continuation of activities designed to enhance brand's visual presence at retail outlets;

The overall cost of these activities on the furniture, interior design and construction markets was PLN 7.5m, including PLN 5.7m in the furniture and interior design markets and PLN 1.8m in the construction market.

15. Material related-party transactions in 2013

Information on material transactions executed with related parties is presented in Note 29 to the Group's annual consolidated financial statement
In 2013, the Group did not execute any related-party transactions other than on an arms' length basis.

16. Management of Pfleiderer Grajewo Group's financial resources in 2013

a) Notes

In 2013, the Parent financed its operations chiefly with bank borrowings and, to a certain extent, issues of notes acquired by Pfleiderer Prospan S.A.
As at December 31st 2013, the par value of the Parent's debt under notes in issue totalled PLN 289.7m. The notes are used to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

b) 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 new credit facility agreements. The total credit limit available under the facilities with four banks amounts to PLN 300,000,000 and ensures financial liquidity of the Parent and its subsidiaries for the next five years. For detailed information on the Group's existing debt, see section 11a to this consolidated Directors' Report.

As at December 31st 2013, debt outstanding under the bank borrowings taken out by the Group totalled PLN 155m.

c) Borrowings from related parties

As at December 31st 2013, the Group did not carry any loans from related parties.
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 2013, see Note 21 and Note 28, respectively, to the consolidated financial statements of the Pfleiderer Grajewo Group.

17. Financial instruments

<u>Overview of the financial instruments</u>

a) Swap transactions

Swap transactions included purchase of foreign currency at a predetermined rate. As at December 31st 2013, the subsidiary Silekol Sp. z.o.o. had four FX swaps (EUR/PLN) for the sale of a total of EUR 2,550 thousand in January and February 2014. As at December 31st 2013, the swaps were measured at PLN 100 thousand.

b) Forward transactions

Forward transactions included purchase of foreign currency at a predetermined rate. In 2013, the Parent executed 36 forward contracts for the total amount of EUR 35.5m. As at December 31st 2013, The Pfleiderer Grajewo Group had no open forward contracts.

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.

The other Group companies did not enter into any transactions on derivative instruments.

c) Guarantees, sureties and security provided by the Group

As at December 31st 2013, the Group had the following contingent liabilities and security:

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 loan 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 has been created over a fluctuating group 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 2013, the Group's debt under the facility totalled PLN 90.8m.

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, 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 Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. The pledge, with the maximum security amount of PLN 83,163,000, was created for the benefit of Powszechna Kasa Oszczędności Bank Polski S.A. to secure claims under a PLN 57,000,000 multi-purpose credit facility granted to Pfleiderer MDF Sp. z o.o. by Powszechna Kasa Oszczędności Bank Polski S.A. on the basis of an agreement of August 29th 2007. The pledge was created in connection with the extension of the term of the working capital loan until August 1st 2014. The same assets are also encumbered with a pledge created earlier for the benefit of Powszechna Kasa Oszczędności Bank Polski S.A. in connection with an investment loan agreement of January 15th 2007.

As at December 31st 2013, the Group's debt under the facility totalled PLN 37.1m.

3. Security for liabilities under the credit facility agreement concluded in June 2013

As at December 31st 2013, 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.

The Parent, Pfleiderer Grajewo S.A., granted six sureties for a total amount of up to PLN 65,622 thousand. As at December 31st 2013, the amount of underlying debt secured with the sureties was PLN 4,622 thousand.

The subsidiary Pfleiderer Prospan S.A. granted seven sureties for a total amount of up to PLN 268,000 thousand, with the largest of the sureties being:
- two sureties for a total amount of up to PLN 115,000 thousand, securing the repayment of the credit facilities extended to Pfleiderer Grajewo S.A. by Bank Millennium S.A. under an agreement of June 26th 2013,
- two sureties for a total amount of up to PLN 115,000 thousand securing the repayment of the credit facilities extended to Pfleiderer Grajewo S.A. by Alior Bank under an agreement of June 26th 2013.
As at December 31st 2013, the amount of underlying debt secured with the sureties was PLN 21,547 thousand.

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

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

As at December 31st 2013, the amount of underlying debt secured with the sureties was PLN 21,547 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.

d) Shares

For details concerning holdings of shares, see Note 12 – “Investments in related parties” to the annual consolidated financial statements.

A description of the acquisition of minority interests is presented in Section 3 of this Report.

18. Financial risks related to the Group’s operations

a) 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 12 months.

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

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.

b) Credit risk

Transactions which expose the Pfleiderer Grajewo Group companies to credit risk concern trade receivables. 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 recourse factoring. In 2013, over 90% of the Group's trade receivables were secured in this way. In the event of insolvency of customers who have insurance coverage, the compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

c) 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.

d) 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 offset to some extent. 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 2013, the Pfleiderer Grajewo Group entered into a number of EUR/PLN forward contracts to hedge against currency risk related to planned trade transactions. The Group had no open forward contracts as at December 31st 2012.

As at December 31st 2013, the subsidiary Silekol Sp. z.o.o. had four FX swaps (EUR/PLN) for the sale of a total of EUR 2,550 thousand in January and February 2014. As at December 31st 2013, the swaps were measured at PLN 100 thousand.

e) Price risk associated with financial instruments

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

f) Risk of material cash-flow disruptions

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.

g) Liquidity risk

The Group monitors its financial 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 liabilities / Net revenue: 360	Average inventory / Net revenue: 360
Dec 31 2013	0.99	0.45	22 days	54 days	43 days
Dec 31 2012	1.08	0.91	23 days	47 days	42 days

As at December 31st 2013, the Pfleiderer Grajewo Group had debt under bank borrowings of PLN 154.5m. It also had unused credit facilities of PLN 290.3m. The Group also held cash of PLN 16.5m.

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.

19. Court proceedings

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

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

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

20. Material settlements under court proceedings

As at December 31st 2013, the Group did not carry any material settlements under court proceedings. In 2013, there were no circumstances which would substantiate the recognition of any provisions for costs of court proceedings.

21. Corrections of errors of past periods

In 2013, the Group did not correct any errors of past periods.

22. Corporate governance

Appointment and removal of the management staff
Pursuant to the Parent’s Articles of Association, the Management Board members are appointed 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 shares granting 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 eliminates 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 Company'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:

a) - they are not members of the governing bodies of Pfleiderer Grajewo S.A.’s parent or of such parent’s subsidiaries,
b) - they are not employed by Pfleiderer Grajewo S.A.’s parent or by such parent’s subsidiaries,
c) - 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 Company'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.

23. 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 the Company. The agreement, dated July 9th 2013, provided for the review of the interim separate financial statements of Pfleiderer Grajewo S.A., the Parent, and the interim consolidated financial statements of the Pfleiderer Grajewo Group. The fee due to KPMG under the Agreement was PLN 84 thousand. The most recent agreement with KPMG, dated July 9th 2013, provided for an audit of the annual separate financial statements of Pfleiderer Grajewo S.A. and the annual consolidated financial statements of the Pfleiderer Grajewo Group for the financial year ended December 31st 2013, prepared in accordance with the IFRS, as well as for an audit of the Group's annual report. The fee due to KPMG under the agreement is PLN 203 thousand.

The total fee for the audits specified above will amount to PLN 302 thousand (PLN 329 thousand for the previous financial year).

24. Audit Committee

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

25. Non-recurring events affecting the Pfleiderer Grajewo Group's financial performance

No non-recurring events which might affect the Pfleiderer Grajewo Group's financial performance occurred in 2013.

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

On June 26th 2013, Radosław Wierzbicki resigned from the position of Member of the Management Board, Operational Director of Pfleiderer Grajewo S.A. Simultaneously, Mr Radosław Wierzbicki resigned from the position of Member of the Management Board of Pfleiderer Prospan S.A. and Member of the Management Board of Pfleiderer MDF Sp. z o.o. (both companies are subsidiaries of Pfleiderer Grajewo S.A.).

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

On February 12th 2013, Mr Hans-Kurt von Werder resigned from the position of Member of Parent's Supervisory Board, effective from February 26th 2013.

In accordance with a resolution of the Extraordinary General Meeting, on February 26th 2013, Mr Richard Mayer was appointed Member of Parent's Supervisory Board.

28. Other activities of the Group

Events subsequent to the end of the reporting period

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

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

On January 20th 2014, Pfleiderer Grajewo S.A., as the purchaser, and Pfleiderer Service GmbH of Neumarkt, Germany, as the seller, signed an agreement for the purchase of shares in subsidiary Pfleiderer MDF Sp. z o.o. of Grajewo. The agreement was signed pursuant to the provisions of the preliminary purchase agreement dated December 27th 2013 after the condition provided for in the preliminary agreement was satisfied.. The purchase agreement concerned 135,328 non-preference shares with a par value of PLN 500 per share. The purchase price for the shares amounted to EUR 6,988 thousand (an equivalent of PLN 29,070 thousand).
Following the purchase, Pfleiderer Grajewo S.A. holds 100% of Pfleiderer MDF Sp. z o.o.’s share capital.
On January 30th 2014, Pfleiderer Prospan S.A. of Wieruszów, a subsidiary of Pfleiderer Grajewo S.A., terminated the factoring agreement signed with PEKAO Faktoring Sp. z o.o. of Lublin on September 26th 2007. The termination took effect after the lapse of one month's notice period, that is on February 28th 2014. The termination follows from the decision to change factoring firms financing Pfleiderer Prospan SA's trade receivables and does not entail any material financial consequences for Pfleiderer Prospan SA.
Simultaneously, on January 30th 2014, Pfleiderer Prospan S.A. and BZ WBK Faktor Sp. z o.o. of Warsaw signed a factoring agreement for non-recourse financing of Pfleiderer Prospan S.A.'s trade receivables, with a limit of PLN 80,000,000. The agreement will enter into force on the day when BZ WBK Faktor Sp. z o.o. receives Pfleiderer Prospan SA's representation on termination and settlement of the factoring agreement between Pfleiderer Prospan SA and PEKAO Faktoring Sp. z o.o.

Economic forecast for the foreseeable future

Given the current economic climate, the Group will refrain from publishing its forecast for 2014 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

Pfleiderer Grajewo Management Board and Pfleiderer Prospan S.A.

Grajewo, April 25th 2014

Wojciech Gątkiewicz
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director