POLISH FINANCIAL SUPERVISION AUTHORITY

Non-Consolidated Annual Report R 2015

year

(prepared in accordance with Par. 86.1.3 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 2015, covering the period from January 1st to December 31st 2015,

including consolidated financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: March 20th 2016

Pfleiderer Grajewo Spółka Akcyjna

(full name)

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

FINANCIAL HIGHLIGHTS	PLN '000		EUR '000	
	2015	2014	2015	2014
I. Sales revenue	648 951	652 518	155 073	155 758
II. Operating profit/(loss)	37 849	39 298	9 044	9 381
III. Profit/(loss) before tax	75 279	66 095	17 989	15 777
IV. Net profit	69 106	60 549	16 514	14 453
V. Net cash provided by (used in) operating activities	81 828	69 301	19 554	16 542
VI. Net cash provided by (used in) investing activities	20 757	-30 643	4 960	-7 315
VII. Net cash provided by (used in) financing activities	-76 129	-38 957	-18 192	-9 299
VIII. Total net cash flow	26 456	-299	6 322	-71
IX. Total assets	1 467 907	1 084 496	344 458	254 439
X. Liabilities	393 005	399 705	92 222	93 777
XI. Non-current liabilities	8 815	10 991	2 068	2 579
XII. Current liabilities	384 190	388 714	90 154	91 198
XIII. Equity	1 074 902	684 791	252 236	160 662
XIV. Share capital	16 376	16 376	3 843	3 842
XV. Weighted average number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVI. 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)	1,39	1,22	0,33	0,29
XVIII. Diluted earnings per ordinary share (PLN/EUR)	1,39	1,22	0,33	0,29
XIX. Book value per share (PLN/EUR)	21,66	13,80	5,08	3,24
XX. Diluted book value per share (PLN/EUR)	21,66	13,80	5,08	3,24
XXI. Declared or paid dividend per share (PLN/EUR)	0,00	0,00	0,00	0,00

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First name and surname	Position	Signature
March 20th 2016	Michael Wolff	President of the Management Board	
March 20th 2016	Rafał Karcz	Member of the Management Board, Chief Administration Officer	
March 20th 2016	Gerd Schubert	Member of the Management Board, Chief Operating Officer	
March 20th 2016	Wojciech Gątkiewicz	Member of the Management Board, Chief Transformation Officer	
March 20th 2016	Richard Mayer	Member of the Management Board, Chief Financial Officer	

SIGNATURE OD THE PERSON RESPONSIBLE FOR ACCOUNT KEEPING			
Date	First name and surname	Position	Signature
March 20th 2016	Ewa Stańska	Person responsible for the accounting records	

TRANSLATION

KPMG

Pfleiderer Grajewo S.A.

Opinion and Report of the Independent Auditor Financial Year ended 31 December 2015

The opinion contains 2 pages
The supplementary report contains 9 pages
Opinion of the independent auditor
and supplementary report on the audit
of the separate financial statements
for the financial year ended
31 December 2015

OPINION OF THE INDEPENDENT AUDITOR

KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.
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00-189 Warszawa
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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Pfleiderer Grajewo S.A.

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of Pfleiderer Grajewo S.A., with its registered office in Grajewo, ul. Wiórowa 1 ("the Company"), which comprise the separate statement of financial position as at 31 December 2015, the separate statement of profit and loss and other comprehensive income, the separate statement of changes in equity and the separate 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 Financial Statements

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of these 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 Company's activities. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of the 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 Company and members of the Supervisory Board are required to ensure that the financial statements and the report on the Company'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 financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 Company, as well as evaluating the overall presentation of the 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 separate financial statements of Pfleiderer Grajewo S.A. have been prepared and present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2015 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's separate financial statements and have been prepared from accounting records, that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

As required under the Accounting Act, we report that the accompanying report on the Company'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 financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner with power of attorney

18 March 2016

FINANCIAL STATEMENTS

Letter from the President of the Management Board

Ladies and Gentlemen,

In 2015, Pfleiderer Grajewo demonstrated a strong financial performance and at the same time successfully drove the full integration of the Group, which has unlocked further growth potential.

Revenues amounted to PLN 649.0 million and remain at similar level to the previous year. This durable position was supported by stable demand in the domestic furniture manufacturing market. Geopolitical instability and deteriorating economic conditions east of Poland resulted in weakened demand in these markets and a devaluation of local currencies led to increased imports of competitive products.

The demanding situation in export markets resulted in a changed product mix and a decline of some product prices. A positive signal, however, was a substantial upswing in the volume of laminated boards sold and a strengthening of the Company's position in the added value segment in Poland.

Prices for key raw materials decreased in the past year while the cost of energy increased. Available capacities at our key production lines were almost fully utilised, permitting an efficient distribution of fixed costs. These developments resulted in growth of 2 p.p. in margin levels.

The Company's results of operations for 2015 remained stable. Profit on sales increased by 2%, EBIT reached almost PLN 37.8 million, representing a decrease of 3.7% year-on-year. This reflects our improved cost structure, supported by lower prices of key raw materials and operational efficiency improvements delivered by our investment projects, as well as marketing initiatives designed to promote growth of the wholesale and distribution network. Non-recurring advisory and efficiency programs costs amounted to PLN 9.3 million, as compared to PLN 8.2 million in 2014. Net profit amounted to PLN 69.1 million, an increase of 14% year-on-year that was mainly due to reduced debt servicing cost.

In 2015, we successfully strengthened our ability to invest, reflected in capital expenditure in the amount of PLN 31.3 million. The Company plans to increase capacity on its existing lines in order to serve expected growing market demand in the near term.

In January 2016, Pfleiderer Grajewo S.A. successfully completed a capital increase to acquire its holding company Pfleiderer GmbH. We will now fully focus on completing the integration of Pfleiderer Group by leveraging the combined strengths to realize potential synergies of up to EUR 30 million by the end of 2018. In November 2015 we opened our new head office in Wroclaw and started to centralize all service functions.

On the back of the integration process we are convinced that we will be able to improve the quality of our results over the course of the current year and to continue to pursue our growth path. We expect to be able to increase our competitiveness in the market, expand our value-added products offering and selectively expand into adjacent regions.

Yours faithfully,

Michael Wolff
President of the Management Board

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PFLEIDERER GRAJEWO S.A.

ANNUAL SEPARATE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

CONTENTS

MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text, Dz. U. of 2014, item 133), the Management Board of Pfleiderer Grajewo S.A. represents that to the best of its knowledge the annual separate financial statements for the year ended 31 December 2015 and the comparative data have been prepared in compliance with the applicable accounting policies and give a fair and clear view of the Company's assets and financial results, and that the annual separate Directors' Report on the Company'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. represents that the audit firm which audited the annual separate financial statements was appointed in compliance with applicable laws, and that both the audit firm and the auditors who performed the audit meet the conditions required to issue an objective and independent opinion on the audited annual separate financial statements, in accordance with the applicable laws and professional standards.

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Administration Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Officer

Richard Mayer
Member of the Management Board, Chief Financial Officer

Grajewo, 18 March 2016

(all amounts in PLN thousand)

ANNUAL SEPARATE FINANCIAL STATEMENTS
Statement of financial position

	Note	31 Dec 2015	31 Dec 2014
Assets			
Property, plant and equipment	14	162,348	155,814
Intangible assets	15	4,045	2,582
Investments in subsidiaries	16	785,743	785,752
Long term investments	17	75	75
Non-current loans advanced to subsidiaries	16	10,473	10,027
Advances paid on fixed assets		814	0
Fair value of hedging instruments	21	0	626
Non-current assets		**963,498**	**954,876**
Inventories	19	55,161	74,031
Trade and other receivables	20	415,454	50,475
Income tax receivables		375	0
Cash and cash equivalents		30,983	4,527
Fair value of hedging instruments	27	2,436	587
Current assets		**504,409**	**129,62**
Total assets		**1,467,907**	**1,084,496**
Equity and liabilities			
Equity			
Share capital	21	16,376	16,376
Share premium		289,806	289,806
Reserves		676,532	294,978
Retained earnings		92,188	83,631
Total equity		**1,074,902**	**684,791**
Liabilities			
Employee related payables	24	7,773	8,754
Deferred tax liabilities	18	2,237	2,237
Fair value of hedging instruments	27	455	0
Non-current liabilities		**8,815**	**10,991**
Loans and borrowings	23	0	11,149
Income tax payable		0	470
Liabilities to related parties under debt securities	26	233,767	278,503
Fair value of hedging instruments	27	51	0
Trade and other payables	25	137,02	85,184
Employee related payable	24	13,352	13,408
Current liabilities		**384,19**	**388,714**
Total liabilities		**393,005**	**399,705**
Total equity and liabilities		**1,467,907**	**1,084,496**

Notes are an integral part of these annual separate financial statements

(all amounts in PLN thousand)

Statement of profit and loss and other comprehensive income

	Note	1 Jan– 31 Dec 2015	1 Jan – 31 Dec 2014
Revenue		648,951	652,518
Cost of sales	10	(550,055)	(555,211)
Profit on sales		**98,896**	**97,307**
Other income	8	10,350	6,604
Distribution expenses	10	(39,481)	(38,657)
General and administrative expenses	10	(28,068)	(23,765)
Other expenses	9	(3,848)	(2,191)
Result from operating activities		**37,849**	**39,298**
Financial income		47,182	39,342
Financial expenses		(9,752)	(12,545)
Net financing income	12	**37,430**	**26,797**
Profit before tax		**75,279**	**66,095**
Income tax expense	13	(6,173)	(5,546)
Net profit for the reporting period		**69,106**	**60,549**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Cash flow hedges – effective portion of changes in fair value		2,374	1,231
Cash flow hedges – net change in fair value reclassified to current year profit or loss		(5,453)	-
Other comprehensive income		**(3,079)**	**1,213**
Total comprehensive income for the period		**66,027**	**61,762**
Basic and diluted earnings per share (PLN)	22	1.39	1.22

(all amounts in PLN thousand)

Statement of changes in equity

	Share capital	Share premium	Statutory reserve funds	Other reserves	Cash flow hedges	Retained earnings	Total
1 Jan 2014	16,376	289,806	207,762	-	-	109,085	623,029
Comprehensive income for the period							
Net profit	-	-	-	-	-	60,549	60,549
Other comprehensive income	-	-	-	-	-	-	1,213
Total comprehensive income for the period	-	-	-	-	1,213	-	1,213
Transactions with owners recognised in equity							
Transfer of 2013 net profit to statutory reserve funds	-	-	86,003	-	-	(86,003)	-
Total transactions with owners recognised in equity	-	-	**86,003**	-	-	**(86,003)**	-
31 Dec 2014	**16,376**	**289,806**	**293,765**	-	**1,213**	**83,631**	**684,791**
1 Jan 2015	**16,376**	**289,806**	**293,765**	-	-	**83,631**	**684,791**
Comprehensive income for the period							
Net profit	-	-	-	-	-	69,106	69,106
Other comprehensive income	-	-	-	-	(3,079)	-	(3,079)
Total comprehensive income for the period	-	-	-	-	**(3,079)**	**69,106**	**66,027**
Transactions with owners recognised in equity							
Unregistered share capital increase of Pfleiderer Grajewo S.A.	-	-	324,084	-	-	-	324,084
Capital allocated to purchase of own shares	-	-	(140,000)	140,000	-	-	-
Transfer of 2014 net profit to statutory reserve funds	-	-	60,549	-	-	(60,549)	-
Total transactions with owners recognised in equity	-	-	**244,633**	**140,000**	-	**(60,549)**	**324,084**
31 Dec 2015	**16,376**	**289,806**	**538,398**	**140,000**	**(1,866)**	**92,188**	**1,074,902**

Notes are an integral part of these annual separate financial statements

(all amounts in PLN thousand)

Statement of cash flows

	Note	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Net profit for the reporting periods		**69,106**	**60,549**
Adjustments		21,395	(8,536)
Depreciation and amortisation	10	22,167	17,029
Foreign exchange gains		(5,239)	(1,517)
Dividend and interest for the period		(36,644)	(26,218)
Loss on disposal of shares		-	116
Loss/ gain on investing activities		207	(217)
Income tax disclosed in profit or loss of the period	13	6,173	5,546
Changes in:			
- trade and other receivables		(19,925)	8,529
- inventories		18,870	(8,791)
- trade and other payables	32	31,949	(7,423)
- employee benefit obligations		(1,037)	3,453
Result on forward contracts		5,453	899
Other adjustments		(679)	58
Cash flows from operating activities		**90,401**	**52,013**
Interest received		64	150
Interest paid		(20)	(17)
Income tax paid/received		(8,617)	17,155
Net cash provided by operating activities		**81,828**	**69,301**
Cash flows from investing activities			
Disposal of property, plant and equipment		102	217
Dividend received	12	45,417	37,995
Acquisition of non-controlling interests		(439)	(30,341)
Disposal of a subsidiary		18,098	5,860
Acquisition of intangible assets and property, plant and equipment		(36,053)	(44,374)
Expenditures related to settlement of derivatives		(6,368)	-
Net cash provided by/ used in investing activities		**20,757**	**(30,643)**
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		(11,149)	(15,503)
Redemption of debt securities		(1,068,773)	(1,472,296)
Issue of debt securities		1,024,342	1,460,809
Transaction costs related to increase of share capital		(13,305)	-
Interest paid		(7,244)	(11,967)
Net cash used in financing activities		**(76,129)**	**(38,957)**
Total net cash flows		**26,456**	**(299)**
Increase/(decrease) in cash		26,456	(299)
Cash at beginning of the period		4,527	4,826
Cash at end of the period	32	**30,983**	**4,527**

1. General information

Pfleiderer Grajewo S.A. is a listed joint-stock company registered in Poland.

The Company, under its former name of Zakłady Płyt Wiórowych S.A. of Grajewo, was originally registered on 1 July 1994 by the District Court, Commercial Court of Łomża, in Section B of the Commercial Register under entry No. 270. Subsequently, on 9 May 2001, it was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On 18 September 2002, the Company's Management Board received the decision of the District Court of Białystok on entering the Company's new name, Pfleiderer Grajewo S.A., in the National Court Register.

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

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

As at 31 December 2015, Pfleiderer Grajewo S.A. was the Parent Company with the respect to following companies:

- Pfleiderer Prospan S.A. located in Wieruszów,
- Silekol Sp. z o. o. located in Kędzierzyn Koźle,
- Pfleiderer MDF Sp. z o.o. located in Grajewo,
- Jura Polska Sp. z o.o. located in Grajewo,
- Unifloor Sp. z o. o. w likwidacji located in Wieruszów,
- Pfleiderer Service Sp. z o.o. located in Grajewo,

Moreover, as at 31 December 2015, Pfleiderer Grajewo S.A. held a 50% interest in jointly controlled entity: Blitz 11–446 GmbH.

These annual separate financial statements were approved by the Management Board on 18 March 2016.

The Company prepared the consolidated financial statements for the financial year ended 31 December 2015, which were approved by the Management Board on 18 March 2016.

Consolidated financial statements at the level of the ultimate parent of the group to which the Company belongs as a subsidiary will be prepared by Atlantik S.A. of Luxembourg.

2. The Company's principal business activity:

The scope of the Company's business, as per its Articles of Association, includes:

- manufacturing of laminated and raw chipboards and other wood and wood-based products,
- manufacturing of other wood products,
- coating and impregnation of paper and cardboard.

(all amounts in PLN thousand)

3. Composition of the Management Board and the Supervisory Board

As at 31 December 2015, the Company's Management Board consisted of:

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

On 16 February 2015 the following changes took place based on decision of the Supervisory Board of Pfleiderer Grajewo S.A.:

- appointment of Mr. Michael Wolff to the Management Board for a position of President of Management Board;
- appointment of Mr. Gerd Schubert to the Management Board for a position of Chief Operating Officer;
- dismissal of Mr. Wojciech Gątkiewicz from a position of President of Management Board and appointment for a position of Member of Management Board - Chief Transformation Officer.

As at the date of issue of these annual separate financial statements, the composition of the Company's Management Board was as follows:

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

On 2 March 2016 the following changes took place based on decision of the Supervisory Board of Pfleiderer Grajewo S.A.:

- appointment of Mr. Richard Mayer to the Management Board for a position of Member of Management Board - Chief Financial Officer;
- dismissal of Mr. Rafał Karcz from a position of Chief Financial Officer and appointment for a position of Member of Management Board - Chief Administration Officer.

On 2 March 2016, Mr. Dariusz Tomaszewski submitted a resignation from a position of Member of Management Board – Sales Director.

The members of the Supervisory Board of the Company as of 31 December 2015 are the following:

1. Paolo G. Antonietti	Chairman of the Supervisory Board
2. Michael F. Keppel	Vice-Chairman of the Supervisory Board
3. Jochen Schapka	Member of the Management Board
4. Richard Mayer	Member of the Supervisory Board
5. Jan Woźniak	Member of the Supervisory Board
6. Christoph Mikulski	Member of the Supervisory Board
7. Gerd Hammerschmidt	Member of the Supervisory Board

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

(all amounts in PLN thousand)

On 30 January 2015, Mr Paolo G. Antonietti and Mr. Michael F. Keppel were appointed to the position of Member of Pfleiderer Grajewo S.A. Supervisory Board.

On 16 February 2015, Supervisory Board appointed Mr. Paolo G. Antonietti to the position of Chairman of Pfleiderer Grajewo S.A. Supervisory Board and Mr. Michaela F. Keppel to the position of Vice – Chairman of Pfleiderer Grajewo S.A. Supervisory Board.

In accordance with a resolution of the Extraordinary General Meeting, dated 8 June 2015, Mr Christoph Mikulski and Mr Greg Hammerschmidt were appointed to the position of Member of the Pfleiderer Grajewo S.A. Supervisory Board.

On 30 June 2015, the Supervisory Board resolved to form an Audit Committee and a Nomination and Remuneration Committee at the Company's Supervisory Board.

As at the date of issue of these annual separate financial statements, the Supervisor Board included the following members:

1. Paolo G. Antonietti	Chairman of the Supervisory Board
2. Michael F. Keppel	Deputy-Chairman of the Supervisory Board
3. Zbigniew Prokopowicz	Deputy-Chairman of the Supervisory Board
4. Christoph Mikulski	Member of the Supervisory Board
5. Jan Woźniak	Member of the Supervisory Board
6. Krzysztof Sędzikowski	Member of the Supervisory Board
7. Stefan Wegener	Member of the Supervisory Board

On 19 January 2016, Richard Mayer, Gerd Hammerschmidt and Jochen Schapka resigned from their positions as the President and Members of the Supervisory Board, respectively.

The aforementioned resignations were a consequence of the completion of reorganization of the Capital Group, as a result of which Pfleiderer Grajewo S.A. became the parent company for other companies in the group, in which the aforementioned members act as the members of management bodies or occupy other positions, which cannot be combined with positions of the members of the Supervisory Board of the Parent Company.

On 19 February 2016, Mr Zbigniew Prokopowicz, Mr Krzysztof Sędzikowski and Mr Stefan Wegener were appointed to the position of the Members of the Supervisory Board. On 2 March 2016 Mr Zbigiew Prokopowicz was appointed to the position of the Deputy Chairman of the Supervisory Board.

On 2 March 2016, the Supervisory Board resolved to form a Transformation Committee at the Company's Supervisory Board, with members: Mr Paolo G. Antonietti, Mr Zbigniew Prokopowicz and Mr Stefan Wegener.

4. Periods covered by the separate financial statement and the comparative data

This separate financial statement has been prepared for the year ended 31 December 2015, while the comparative financial data and notes relate to the year ended 31 December 2014.

5. Basis of preparation

a) Statement of compliance

This annual separate financial statement has been prepared in accordance with accounting principles contained in the International Financial Reporting Standards as adopted for use in the European Union ("the EU IFRS").

Details of the Company's accounting policies, are included in Note 6.

A number of new standards, amendments to standards and interpretations have been published but were not yet effective for annual period ending on 31 December 2015 and have not been applied in the separate financial statements. The Company intends to apply them for the periods for which they are required to be applied for the first time.

Standards, amendments to standards and interpretations have not been endorsed by European Union or are not effective for the annual periods beginning as of 1 January 2015:

- IFRS 9 Financial Instruments (along with amendments): Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting (effective date: 1 January 2018);
- IFRS 14 Regulatory Deferral Accounts: Accounting and disclosure principles for regulatory deferral accounts. (effective date: 1 January 2016);
- IFRS 15 Revenue from Contracts with Customers: The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition. (effective date: 1 January 2018);
- IFRS 16 Leases: IFRS 16 eliminates the classification of leases as either operating lease or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease. (effective date 1 January 2019);
- Amendments to IAS 12: Clarification of the method of deferred tax asset settlement on unrealized losses. (effective date 1 January 2017);
- Amendments to IAS 7: The initiative on changes to the disclosures (effective date: 1 January 2017);
- Amendments to IFRS 11: Additional accounting guidance for the acquisition of an interest in a joint operation. (effective date: 1 January 2016);
- Amendments to IFRS 10 and IAS 28: Deals with the sale or contribution of assets between an investor and its joint venture or associate. (effective date: not specified);
- Amendments to IFRS 10, IFRS 12 and IAS 28: Clarification of the provisions on recognition of investment units in the consolidation. (effective date: 1 January 2016);
- Amendments to IAS 1: Changes regarding disclosures required in the financial statements. (effective date: 1 January 2016);
- Amendments to IAS 16 and IAS 38: Clarifies that a method of depreciation/amortization that is based on the revenue expected to be generated from using the asset is not allowed. (effective date: 1 January 2016);
- Amendments to IAS 16 and IAS 41: Accounting for bearer plants (effective date: 1 January 2016);
- Amendments to IAS 19: Simplifies the accounting for contributions by employees or third parties to defined-benefit plans. (effective date: 1 February 2015);
- Amendments to IAS 27: Use of the equity method in separate financial statements. (effective date: 1 January 2016);

Annual Improvements to IFRS - cycle: 2010-2012 (effective date: 1 February 2015)
This cycle of improvements contains amendments to the following standards and specific issues:

- IFRS 2: matter of vesting conditions;
- IFRS 3: matter of conditional consideration;
- IFRS 8: matter of presentation of operating segments;
- IFRS 13: Short-term receivables and payables;
- IAS 16/IAS 38: disproportionate change in gross amount and accumulated depreciation/amortization in revaluation method;
- IAS 24: definition of key management personnel.

Annual Improvements to IFRS - cycle: 2012-2014 (effective date: 1 January 2016)
This cycle of improvements contains amendments to the following four standards and specific issues:

- IFRS 5: changes in methods of disposal
- IFRS 7: regulations regarding servicing contracts, and applicability of the amendments to IFRS 7 to interim financial statements;
- IAS 19: discount rate: regional market issue;
- IAS 34: additional guidance relating to disclosures in interim financial statements.

According to the Company, abovementioned standards, interpretations and amendments to standards would not have a material impact on the separate financial statements, if they had been applied by the Company at the reporting date, with the exception of IFRS 9 "Financial Instruments", which could have a significant impact on the classification and valuation of financial assets. Upon initial application, ie. 1 January 2018, impact of the new IFRS 15 will depend on the specific facts and circumstances relating to contracts with customers, the Company is a party.

b) Basis of accounting

This annual separate financial statement has been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

c) Functional and presentation currency

This annual separate financial statement is presented in the Polish zloty (PLN) and all amounts have been rounded to the nearest thousand (PLN'000) unless stated otherwise The Polish zloty is the functional currency of the Company.

d) Estimates and judgements

In preparing these separate financial statements in accordance with the International Financial Reporting Standards, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following Notes:

- Notes to the annual separate financial statements, Chapter 6, Section e (iv) and f (iii) – 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 13,18 – Corporate income tax - recognition of deferred tax assets; availability of future taxable profit against which carryforward tax losses can be used,
- Note 14 – Recoverable amount of non-financial non-current assets - if there is an indicator for impairment, the recoverable amount of non-financial non-current assets 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, increase rates).
- Note 20 – Derecognition of trade receivables from the statement of financial position based on analysis of risks and benefit transfer and degree of involvement,
- Note 24 – Measurement of liabilities under defined employee benefits -employee benefits are evaluated by an actuary. The valuation is based on certain assumptions regarding interest rates, remuneration increase, inflation rate, and employee turnover,
- Note 27 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments,

(all amounts in PLN thousand)

- Note 28 – Classification of lease agreements – the Management Board classifies lease agreements based on assessment of acquired/transferred risks and rewards associated with the assets used under a lease agreement.
- Note 30 – Contingent liabilities – recognition of contingent liabilities requires estimating the risk and probable outflow of economic benefits as well as defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period.

6. Significant accounting policies

The Company's accounting policies have been applied consistently to all periods presented in these financial statements, and are consistent with the policies applied in the previous year.

a) Foreign currencies transactions

Foreign currency transactions are converted into the Polish zloty using the exchange rate applied by the Company's bank at the dates of the transactions.

Transaction expressed in a foreign currency are converted into the Polish zloty at the date of the transaction using the average exchange rate quoted by the National Bank of Poland for a given currency for the date preceding the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the average exchange rate quoted by the National Bank of Poland for a given currency as at the reporting date.

Non-monetary assets and liabilities presented in foreign currencies valued at historical cost are translated at the average exchange rate quoted by the National Bank of Poland effective as at the transaction date.

Non-monetary assets and liabilities presented in foreign currencies valued at fair value are translated at the average exchange rate quoted by the NBP as at the fair value measurement date.

Foreign exchange gains or losses resulting from settlements of transactions in foreign currencies and from the conversions of monetary assets and liabilities denominated in foreign currencies are disclosed as profit/loss of the current period, except for those arising from translation of a qualifying cash-flow hedges to the extent the hedges are effective, which are recognised in other comprehensive income.

	Exchange rates used to translate monetary items of the statement of financial position	
	Dec 31 2015	**Dec 31 2014**
EUR	4.2615	4.2623
USD	3.9011	3.5072
GBP	5.7862	5.4648
RUB	0.0528	0.0602
RON	0.9421	0.9510

b) Financial instruments

(i) Non-derivative financial instruments

The Company classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

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

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Loans advanced and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus any directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method less impairment losses, if any.

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

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

Cash and cash equivalents comprise cash in hand and demand deposits at banks. Cash and cash equivalents presented in the statement of cash flows include the abovementioned cash and cash equivalents or 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. These assets are initially recognised 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 these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Non-derivative financial liability

Non-derivative financial liability 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 transaction date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

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

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

(ii) Derivative financial instruments

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

Derivatives are initially recognised at fair value. Transaction costs are recognised when incurred and charged to the profit or loss of the period. Subsequent to initial recognition, the Company measures derivatives at fair value, and changes therein are generally recognised in profit and loss. However, if financial derivatives are classified as hedging instruments, the recognition of gains or losses on measurement to fair value depends on the type of the item hedged with such derivatives.

At the initial recognition of a derivative financial instrument as a hedging instrument, a Company formally documents the relationship between the hedging instrument and the hedged position. The documentation includes the purpose of risk management and the strategy of the hedging and the hedged risk, as well as the methods that a Company will use to evaluate the effectiveness of the hedging instrument.

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

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

Cash flow hedges
If a derivative financial instrument is designated as a cash flow hedge against 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. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability, the Company removes the associated gains and losses that were recognised in other comprehensive income and includes them in the initial costs or other carrying amount of the asset or liability.

If a hedging instrument no longer meets the criteria of hedge accounting, expires, is sold, terminated, exercised, or its purpose changes, then the Company ceases to apply the principles of hedge accounting. If a forecast transaction is no longer expected, the gains and losses recognised under equity are taken to the profit or loss of the period.

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 impacts profit or loss.

c) Investments in subsidiaries

Subsidiaries are all entities with respect to which the Company has the power to govern their financial and operating policies in order to derive benefits from their operations.

Investments in subsidiaries classified as non-current assets are recognised at cost. The Company recognises impairment losses (if any) not later than at the end of the reporting period. The value of shares is reduced by impairment losses (if any).

d) Investments in jointly controlled entities

Interests in joint ventures are investments jointly controlled by the Company. It is assumed that the Company has joint control if strategic financial and operating decisions require unanimous consent of the parties sharing control. Investments in jointly controlled entities classified as non-current assets are recognised at cost, which includes transaction costs.

The Company recognises impairment losses (if any) not later than at the end of the reporting period. The value of shares is reduced by impairment losses (if any).

e) Property, plant and equipment

(i) Owned property, plant and equipment

Items of property, plant and equipment are disclosed at acquisition or production cost, net of accumulated depreciation and impairment losses.

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

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any 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 for the period.

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

Lease agreements under which an entity (as a lessee) assumes substantially all the risks and rewards resulting of ownership of the property, plant and equipment are classified as finance lease agreements.

The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments and net of accumulated depreciation and any impairment losses. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Lease agreements under which the lessor retains substantially all of the risks and benefits resulting from the ownership of the leased asset are classified as operating leases. Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Additional expenditures related to repair and maintenance of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

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

The estimated useful lives of property, plant and equipment adopted by the Group for current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f) **Intangible assets**

(i) Other intangible assets

Other intangible assets, that are acquired by the Company and have finite useful lives are measured at cost of purchase net of accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation of intangible assets is calculated with the straight-line method over their estimated useful lives, unless their useful economic lives are indefinite- Intangible assets with indefinite useful economic lives are tested for impairment as at the end of each financial year. Other intangible assets are amortised from the date that they are available for use.

The estimated useful economic lives of intangible assets are as follows:

Licences	2-3 years
Computer software	2 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

g) **Inventories**

Inventories are measured at the lower of the acquisition or production cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost to complete and estimated costs necessary to make the sale.

The cost of inventory is determined in the following manner:

Materials and merchandise – at acquisition cost; based on the weighted average method.

Finished goods and work in progress – cost of direct materials and labour and an appropriate share of production overheads based on normal operating capacity; based on the weighted average method.

h) Impairment losses

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

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.

All material financial asset are 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 for the period.

If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an assets or cash-generating units (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If an asset does not generate cash flows that are largely independent of those from other assets, value in use is estimated for smallest identifiable group of assets that generates cash flows.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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

i) Equity

(i) Ordinary shares

Ordinary shares are disclosed under equity. Incremental costs directly attributable to the issue of ordinary shares or stock options, net of any tax effects, are recognised as a deduction from equity.

(ii) Dividends

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

j) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(i) Defined contribution plan

The Company is required to withhold and pay contributions for future pension benefits of its employees, under the applicable regulations. Contribution plan relates to the government program financed with contributions paid by the Company and by an employee to a pension fund. In connection with the above, the Company'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 system, employees of the Company are entitled to receive retirement benefits (one-off payment upon retirement).

The Company's retirement benefit 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 benefit that employees have earned in the current and prior periods, discounting that amount to present value. Retirement benefit obligations are recognised proportionally to the employee's expected work period.

The calculation of retirement benefit obligations is performed annually by a qualified actuary using the projected unit credit 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.

k) Provisions

Provisions are created when the Company has a current liability (legal or constructive obligation) resulting from past events and when it is probable that settling the obligation will result in an outflow of resources embodying economic benefits and the amount of the obligation can be reliably estimated. Provisions are recorded based on the best estimates of the Management Boards of the Company.

If the effect of changes in the time value of money is significant, the amount of provisions is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If the discounting method is applied, an increase in provisions as a result of lapse of time is recognised as finance costs.

Carbon dioxide emission rights are not recognized in the statement of financial position neither in the moment of their granting nor in the following (subsequent) periods. The fees for the issuing of rights are recognized as an expense in profit and loss in the period in which are incurred.

Revenues from the sale of rights granted are recognized as other operating income.

If at the balance sheet date, the Company does not have sufficient quantities of rights to fully cover the amount of the carbon dioxide emitted in a year, the Company creates a provision to cover the shortfall of rights.

l) Revenue

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

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

Revenue is recognised when significant risks and ownership of finished goods and merchandise have been transferred to the customer, and if the recovery of the consideration is probable. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement and usually occurs when the finished goods are delivered to the carrier or another person nominated by the seller at an agreed place. The revenue is not recognised if the future economic benefits, determination of the costs incurred, or the possibility of return of finished goods/merchandise is highly uncertain, or if the entity is involved in the management of the sold finished goods/merchandise on a continuing basis.

m) Operating lease payments

Payments under operating lease agreements are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

n) Finance lease payments

Minimum lease payments made under finance leases are apportioned between finance costs and reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

o) Net foreign exchange gains/loss

Foreign exchange gains and losses from operating activities, i.e. realised and unrealised foreign exchange gains or losses on cash, receivables and payables, investment liabilities and gain or losses from sale of receivables (factoring) are recognised in other income or other expenses. Foreign exchange gains and losses are presented on a net basis.

p) Net finance income and costs

Finance income includes interest income on funds invested by the Company, reclassifications of net gains previously recognised in other comprehensive income, foreign currency gains (excluding gains from foreign currency differences classified to other operating income) and dividend 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, foreign currency losses (excluding gains from foreign currency differences classified to other operating income), and impairment losses recognised on financial assets (other than trade receivables), reclassification of net losses previously recognised in other comprehensive income. Interest expense that is not directly attributable to the acquisition, construction or production of a qualifying asset is recognised in profit or loss using the effective interest rate method.

Foreign currency gains and losses are presented on a net basis.

q) Income tax expense

Income tax expenses comprise of current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current income tax is calculated in accordance with the relevant tax regulations based on taxable profit for a given period and comprises the expected tax payable in the amount which has not been paid or receivable if the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognized and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, and including any tax adjustments from previous years.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recognised in the separate statement of financial position and disclosed in the separate financial statements.

Deferred tax assets and liabilities are offset only if certain criteria are met. The transactions settled directly in equity are recognized in equity.

Deferred tax asset is not recognised for:

- temporary differences on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that they will not reverse in the foreseeable future;
- taxable temporary differences arising on initial recognition of goodwill (only deferred tax liability).

Deferred tax assets are recognised in relation to all deductible temporary differences as well as unused tax losses carried forward, in the amount of the probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are calculated using tax rates that are expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) using tax rates enacted or substantively enacted at the reporting date.

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

r) Earnings/(Loss) per share

The Company 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 are 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

According to IFRS 8 Operating Segments, these separate financial statements disclose information on segments based on components of the Company which are monitored by Chief Operating Decision Maker ("CODM") i.e. the Management Board of the Company.

Operating segments are components of the Company for which discrete financial information is available and whose operating results are reviewed regularly and monitored by the CODM in making decisions about resources to be allocated to the segment assessment of the segment's performance.

Operating results of the operating segments for which financial information can be identified are reviewed regularly by the CODM to make decisions about resources to be allocated and to assess the segments' performance.

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

Segment assets excludes cash, income taxes receivable and deferred tax assets. Segment liabilities excludes income taxes payable, deferred tax liabilities, borrowing and other financial debt instruments.

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

The Company operates in one business segment – production of chipboard – and does not identify any geographical segments.

(all amounts in PLN thousand)

7. Operating segments

The Company presents information on operating segments in the annual consolidated financial statements for the year ended 31 December 2015.

8. Other income

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Profit on sale of property, plant and equipment	-	217
Reversal of impairment loss on receivables	1,359	1,906
Compensations and penalties received	2	152
Release of unused accruals and deferred income	-	987
Operating foreign exchanges gains	4,729	1,037
Other income	4,260	2,305
Total	**10,350**	**6,604**

In 2015, other income of PLN 4,260 thousand includes income from the sale of CO_2 emission rights in the amount of PLN 3,819 thousand.

9. Other expenses

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Loss on disposal of property, plant and equipment	207	-
Impairment loss on trade receivables	134	877
Receivables written-off	2	182
Damages paid	13	58
Recognition of accruals	227	849
Other expenses	3,265	225
Total	**3,848**	**2,191**

In 2015, other expenses of PLN 3,265 thousand include mainly Group reorganization costs under the implemented One Pfleiderer project of PLN 3,112 thousand.

10. Operating expense, by nature of expense

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Raw materials and consumables used	346,950	371,647
Depreciation and amortisation	22,167	17,029
Services	58,110	50,723
Taxes and charges	6,801	6,712
Employee benefits expense	56,444	56,713
Cost of merchandise and materials sold	112,301	110,154
Other costs	10,564	11,862
Total costs	**613,337**	**624,840**
Change in inventories of finished goods and accruals and deferrals	7,065	(4,762)
Work performed by entity and capitalised	(2,798)	(2,445)
Total operating expense	**617,604**	**617,633**
including:		
Distribution expenses	39,481	38,657
General and administrative expenses	28,068	23,765
Cost of sales	550,055	555,211

(all amounts in PLN thousand)

11. Employee benefits expense

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Salaries and wages	46,866	43,736
Social security contributions	10,892	10,323
Change in retirement benefit obligations	(703)	2,919
Change in unused holiday accrual	(111)	165
Change in bonus accrual	(499)	(430)
Total	**56,444**	**56,713**

12. Financial income and expenses

Disclosed in profit or loss for the period:

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Interest income	512	652
Net foreign exchange gains from financing activities	-	10
Gains on forward contracts (financing activities)	-	685
Gain on disposal of shares in subsidiaries	1,253	-
Dividend income	45,417	37,995
Financial income	47,182	39,342
Interest expense	7,041	12,360
Losses on disposal of shares in subsidiaries	10	116
Other finance costs	2,701	69
Financial costs	9,752	12,545
Net financing income	**37,430**	**26,797**

In 2015, other finance costs of PLN 2,701 thousand include charges for ineffective currency options of PLN 2,572 thousand.

The above finance income and costs include the following items of interest income and interest expense related to assets and liabilities:

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Interest income on financial assets	512	652
Interest expense on financial liabilities	(7,041)	(12,360)
	(6,529)	**(11,708)**

(all amounts in PLN thousand)

13. Income tax expense

	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Income tax expense		
Current portion of income tax	7,823	3,715
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,650)	(2,312)
Use of tax loss	-	4,143
	(1,650)	1,831
Tax expense recognised in profit of the period	**6,173**	**5,546**

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

		1 Jan 2015 31 Dec 2015		1 Jan 2014 31 Dec 2014
Profit before tax	%	**66 095**	%	**124 207**
Tax at domestic rate	19%	14,303	19%	12,558
Non-tax-deductible expenses	0.53%	402	0.32%	209
Dividends received	(11.33%)	(8,532)	(10.93%)	(7,219)
Non-taxable income	(0.00%)	-	0.00%	(2)
Effect on income tax	**(10.80%)**	**(8,130)**	**(10.61%)**	**(7,012)**
Income tax at effective tax rate	8.20%	6,173	8.39%	5,546
Income tax disclosed in profit of the period		**6,173**		**5,546**

(all amounts in PLN thousand)

14. Property, plant and equipment

Gross value	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan 2014	110,012	377,512	19,480	10,112	517,116
Increases	-	-	-	57,524	57,524
Disposals	-	577	697	-	1,274
Transfers	1,250	34,698	4,151	(42,153)	(2,054)
Reclassification of property, plant and equipment	-	(58)	-	-	(58)
31 Dec 2014	**111,262**	**411,575**	**22,934**	**25,483**	**571,254**
1 Jan 2015	111,262	411,575	22,934	25,483	571,254
Increases	-	-	-	30,511	30,511
Decreases	267	13,988	725	-	14,980
Transfers	8,994	28,044	1,431	(41,438)	(2,969)
31 Dec 2015	**119,989**	**425,631**	**23,640**	**14,556**	**583,815**

(all amounts in PLN thousand)

Accumulated depreciation and impairment losses	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan 2014	71,607	312,746	16,423	-	400,776
Depreciation	2,641	11,737	1,560	-	15,938
Disposals	0	577	697	-	1,274
31 Dec 2014	**74,248**	**323,906**	**17,286**	**-**	**415,440**
1 Jan 2015	74,248	323,906	17,286	-	415,440
Depreciation	2,757	15,560	2,344	-	20,661
Disposals	226	13,681	724	-	14,631
31 Dec 2015	**76,779**	**325,785**	**18,906**	**-**	**421,470**
Net value					
1 Jan 2014	**38,405**	**64,766**	**3,057**	**10,112**	**116,340**
31 Dec 2014	**37,014**	**87,669**	**5,648**	**25,483**	**155,814**
1 Jan 2015	**37,014**	**87,669**	**5,648**	**25,483**	**155,814**
31 Dec 2015	**43,210**	**99,846**	**4,734**	**14,556**	**162,346**

(all amounts in PLN thousand)

Impairment of non-financial non-current assets

The Management Board did not identify any impairment indicators as at 31 December 2015.

As at 31 December 2015, all properties were subject to a registered debenture that forms security for bank loans.

15. Intangible assets

Gross value	Licences, computer software and other
1 Jan 2014	19,362
Transfers	2,054
31 Dec 2014	**21,416**
1 Jan 2015	21,416
Transfers	2,969
31 Dec 2015	**24,385**
Accumulated amortisation and impairment losses	
1 Jan 2014	17,743
Amortisation	1,091
31 Dec 2014	**18,834**
1 Jan 2015	18,834
Amortisation	1,505
31 Dec 2015	**20,340**
Net value	
1 Jan 2014	**1,619**
31 Dec 2014	**2,582**
1 Jan 2015	**2,582**
31 Dec 2015	**4,045**

No impairment losses on intangible assets were recognised in the reporting period and in the comparative period.

As at 31 December 2015 intangible assets were not used as security for bank loans and other borrowings.

(all amounts in PLN thousand)

16. Investments in subsidiaries

The Company's investments in subsidiaries comprise:

	31 Dec 2015	31 Dec 2014
Interest in subsidiaries	785,743	785,752
Non-current loans advanced to subsidiaries	10,473	10,027
	796,216	**795,779**

16.1. Interest in subsidiaries

The Company's interests in subsidiaries comprise:

	Country	Value of shares at acquisition cost	Ownership interest	Country	Value of shares at acquisition cost	Ownership interest
		31 Dec 2015			31 Dec 2014	
Pfleiderer MDF Sp. z o.o.	Poland	197,053	100%	Poland	197,053	100%
Silekol Sp. z o.o.	Poland	117,428	100%	Poland	117,428	100%
Pfleiderer Prospan S.A.	Poland	470,155	100%	Poland	470,155	100%
Jura Polska Sp. z o.o.	Poland	1,053	100%	Poland	1,053	100%
Grajewo OOO	Russia	-	0%	Russia	9	100%
Pfleiderer Services Sp. z o.o.	Poland	54	100%	Poland	54	100%
		785,743			**785,752**	

Value of shares in jointly controlled entities presented in other non-current financial assets:

	Country	Value of shares at acquisition cost	Ownership interest	Country	Value of shares at acquisition cost	Ownership interest
		31 Dec 2015			31 Dec 2014	
Blitz 11-446 GmbH	Germany	65	50%	Germany	65	50%
		65			**65**	

Changes in Pfleiderer Grajewo S.A.'s shareholdings in subsidiaries in the reporting period:

On 30 April 2015, Pfleiderer Grajewo S.A. disposed of shares of its subsidiary Grajewo OOO. The revenues from the share disposal were PLN 4 (EUR 1).

(all amounts in PLN thousand)

16.2. Loans advanced to subsidiaries

The Company advanced the following loans to subsidiaries:

Non-current loans:	31 Dec 2015	31 Dec 2014
Loan advanced to Pfleiderer MDF Sp. z o.o.	10,473	10,027
	10,473	**10,027**

16.3. Impairment of investments in subsidiaries

The Management Board performed impairment test for investments in subsidiaries as at 31 December 2015.

The recoverable amount of investments in subsidiaries Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o. and Jura Polska Sp. z o.o. was determined based on their value in use. The calculation was performed based on cash flow projections related to the continued holding of investments in subsidiaries, adopted in budgets for the years until 2020 approved by the Management Board. Cash flows beyond five year period are extrapolated at a growth rate of 3% using the Gordon Growth Model. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. The calculation also takes into consideration the current debt of individual investments under analysis, as well as the Company's percentage share in subsidiaries' equity.

The key assumptions used to calculate the value in use as at 31 December 2015 were as follows:

- terminal growth rate beyond the five-year period covered by the budget – 3%;
- discount rates – 9.1%;
- the percentage share in subsidiaries' equity reflects the current structure of the Pfleiderer Grajewo Group.

The values assigned to the key assumptions represent Management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources. The discount rate applied reflects the risk arising in connection with the investments. The risk free rate is assumed to be return on 10-year government bonds.

The test did not reveal any impairment of investments in subsidiaries as at 31 December 2015.

16.4. Key financial data of subsidiaries:

Period 1 Jan–31 Dec 2015	**Assets**	**Liabilities and provisions for liabilities**	**Equity**	**Revenue**	**Profit/ (loss)**
Pfleiderer MDF Sp. z o.o.	460,464	257,104	203,360	290,290	22,471
Silekol Sp. z o.o.	175,986	61,963	114,023	485,447	27,354
Pfleiderer Prospan S.A.	577,596	98,177	479,419	491,153	41,001
Jura Polska Sp. z o.o. *)	15,518	14,185	1,333	91,823	(627)
Unifloor Sp. z.o.o w likwidacji *) **)	-	4,686	(4,686)	-	-
Pfleiderer Services Sp. z o.o.*)	18	-	18	-	(1)
	1,229,582	**436,115**	**793,467**	**1,358,713**	**90,198**

*) Unaudited data
**) Unifloor Sp. z o.o., w likwidacji is a subsidiary of Pfleiderer Prospan S.A., wholly-owned by the Company.

(all amounts in PLN thousand)

Period 1 Jan–31 Dec 2014	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/ (loss)
Pfleiderer MDF Sp. z o.o.	411,937	231,143	180,794	308,858	23,430
Silekol Sp. z o.o.	167,157	67,156	100,001	450,811	23,527
Pfleiderer Prospan S.A.	557,266	87,468	469,798	463,458	34,108
Jura Polska Sp. z o.o.	12,086	10,125	1,961	77,953	(262)
Grajewo OOO*)	746	4	742	2,881	101
Unifloor Sp. z.o.o. w likwidacji *) **)	-	4,686	(4,686)	-	-
Pfleiderer Services Sp. z o.o.*)	19	-	19	-	(1)
	1,149,211	**400,582**	**748,629**	**1,303,961**	**80,903**

*) Unaudited data
**) Unifloor Sp. z o.o. w likwidacji is a subsidiary of Pfleiderer Prospan S.A., wholly-owned by the Company.

17. Other financial assets

Other financial assets	31 Dec 2015	31 Dec 2014
Financial assets available for sale	**75**	**75**
-shares in companies not listed on a regulated securities market	75	75
	75	**75**

(all amounts in PLN thousand)

18. Deferred income tax asset and liability

Deferred tax assets and liabilities arise from the following items of the statements of financial position:

	Assets 31 Dec 2015	Liabilities 31 Dec 2015	Net 31 Dec 2015	Assets 31 Dec 2014	Liabilities 31 Dec 2014	Net 31 Dec 2014
Non-current assets						
Property, plant and equipment	-	5,212	(5,212)	-	4,113	(4,113)
Non-current loans advanced to subsidiaries	-	7	(7)	-	7	(7)
Current assets						
Inventories	622	-	622	782	-	782
Trade and other receivables	559	-	559	799	3,565	(2,766)
Non-current liabilities						
Employee benefit obligations	1,477	-	1,477	1,663	-	1,663
Current liabilities						
Trade and other payables	527	18	509	858	176	682
Employee benefit obligations	1,465	-	1,465	1,522	-	1,522
Deferred income tax asset/liability	**4,650**	**5,237**	**(587)**	**5,624**	**7,861**	**(2,237)**
Deferred income tax asset and liability offset	-	(4,650)		-	(5,624)	
Deferred income tax liability in the statement of financial position	-	**587**		-	**2,237**	

(all amounts in PLN thousand)

Changes in temporary differences during the reporting period:

For the period 1 January - 31 December 2015

	As at 1 Jan 2015	Change in temporary differences recognised in profit or loss for the period	As at 31 Dec 2015
Non-current assets			
Property, plant and equipment	(4,113)	(1,099)	(5,212)
Non-current loans advanced to subsidiaries	(7)	-	(7)
Current assets			
Inventories	782	(160)	622
Trade and other receivables	(2,766)	3,325	559
Non-current liabilities			
Employee benefit obligations	1,663	(186)	1,477
Current liabilities			
Trade and other payables	682	(173)	509
Employee benefit obligations	1,522	(57)	1,465
	(2,237)	**1,650**	**(587)**

For the period 1 January – 31 December 2014

	As at 1 Jan 2014	Change in temporary differences recognised in profit or loss for the period	As at 31 Dec 2014
Non-current assets			
Property, plant and equipment	(5,575)	1,462	(4,113)
Non-current loans advanced to subsidiaries	(1)	(6)	(7)
Other non-current financial assets	(3,546)	3,546	-
Current assets			
Inventories	747	35	782
Trade and other receivables	(678)	(2,088)	(2,766)
Non-current liabilities			
Employee benefit obligations	1,162	501	1,663
Current liabilities			
Trade and other payables	1,844	(1,162)	682
Employee benefit obligations	1,498	24	1,522
Total tax loss brought forward	4,143	4,143	-
	(406)	**(1.831)**	**(2,237)**

(all amounts in PLN thousand)

19. Inventories

	31 Dec 2015	31 Dec 2014
Materials and merchandise	37,715	50,075
Semi-finished products and work in progress	35	12
Finished goods	17,371	23,802
Advances for deliveries	40	142
Total	**55,161**	**74,031**

Inventories are disclosed in the statement of financial position at net realisable value, i.e. net of write-downs of PLN 3,274 thousand (31 December 2014: PLN 4,118 thousand).

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

20. Trade and other receivables

	31 Dec 2015	31 Dec 2014
Trade receivables and advances	38,792	20,192
Current prepayments and accrued income	6,110	3,153
Current VAT receivables	7,215	6,467
Other receivables	363,337	20,663
Total	**415,454**	**50,475**

As at 31 December 2015, trade receivables were reduced by impairment losses of PLN 3,410 thousand (31 December 2014: PLN 4,635 thousand).

As at 31 December 2015, other receivables in amount of PLN 363,337 thousand include receivables from capital increase – issue of series E shares of PLN 361,848 thousand.

As at 31 December 2014, other receivables of PLN 20,663 thousand included among others receivables which were, under executed agreements blocked in the bank accounts and related to receivables from sale of shares in subsidiaries in Russia. The amount of those receivables as of 31 December 2014 was PLN 19,180 thousand.

Trade and other receivables include the following financial receivables:

	31 Dec 2015	31 Dec 2014
Trade receivables	38,792	20,192
Other receivables	363,337	20,663
Prepayments for financing costs and acquisition costs	2,524	-
Total	**404,653**	**40,855**

Factoring of receivables

As at 31 December 2015, Pfleiderer Grajewo S.A. was a party to a factoring agreement. Typically, the factoring agreements are executed for the periods not shorter than one year.

The Company is a party to a factoring agreements without recourse rights which was concluded for an indefinite period. The agreement is automatically rolled by another 12 months if neither party notifies the other party of its intention not to extend an agreement, provided that such notice will be sent no later than two months before the expiry of a given agreement.

(all amounts in PLN thousand)

The terms of the existing agreement are as follows:

Factoree:	Expiry date:	Factor:	Limit:
Pfleiderer Grajewo S.A.	31 March 2016	PEKAO Factoring Sp. z o.o.	PLN 100,000 thousand

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

Due to the fact that the Company retains exposure equals to 10% of the receivables sold to the factor according to factoring agreements, that part of the receivables and the related liabilities continue to be recognised in the Company's financial statements. The remaining amount of the receivables (90%) was derecognized from the Company's statement of financial position.

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

	31 Dec 2015	31 Dec 2014
Total trade receivables	94,673	69,520
Receivables derecognised from the statement of financial position	(55,881)	(49,328)
Net trade receivables	**38,792**	**20,192**

	31 Dec 2015	31 Dec 2014
Factoring receivables as at the reporting date	62,089	54,809
Derecognised receivables (90%)	(55,881)	(49,328)
Receivables recognised in the statement of financial position up to the amount of continuous involvement (10%)	**6,208**	**5,481**

Settlement of factoring services	31 Dec 2015	Dec 31 2014
Factoring receivables as at the end of the reporting period	62,089	54,809
Payments made by customers, not passed to the factor	27,063	11,044
Other settlements with the factor – cash in transit	-	(27)
Payments received concerning receivables derecognised from the statement of financial position	(55,881)	(49,328)
Factoring liabilities as at the reporting date	**33,271**	**16,498**

21. Equity

	31 Dec 2015	31 Dec 2014
Par value of share capital	16,376	16,376
Number of ordinary shares	49,624,000	49,624,000

Pfleiderer Grajewo S.A. is a subsidiary of Pfleiderer Service GmbH, which holds 65.11% of the shares in Company's ordinary capital. In the period from 1 January 2015 to 31 December 32015, the number of the Company shares held by its shareholder, Pfleiderer Service GmbH, did not change.

The ultimate controlling shareholder of Pfleiderer Grajewo S.A. is Atlantik S.A. of Luxembourg.

21.1. Share capital

The share capital is equity paid by shareholders and is stated at nominal value in accordance with the Company's articles of association and the entry in the Commercial Register.

As at 31 December 2015 the share capital consisted of 49,624,000 thousand ordinary shares with a nominal value of PLN 0.33 per share. As at 31 December 2015, all shares were paid up. Shareholders have the right to dividend and are entitled to the one vote per share at the General Meeting.

In the audited period 1 January 2015 to 31 December 2015 there were no changes in the amount of share equity.

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

Shares issuance

On 27 July 2015, the Extraordinary General Shareholders Meeting of Pfleiderer Grajewo S.A. passed a resolution to increase the share capital by the amount not lower than PLN 0.33 and not higher than PLN 13,200 thousand through the issuance of not less than 1 and no more than 40,000,000 ordinary shares of series E with the nominal value of PLN 0.33 per share, with the total exclusion of pre-emptive rights of the existing shareholders of the Company.

The subscription in the offer involved 15,077,007 of the new shares, which were assigned on 10 December 2015. The issue price per 1 share amounted to PLN 24. The issue of series E shares was presented in this report in the capital item "Reserves" in the amount of PLN 361,848 thousand and in "Other receivables" (note 20). The value of share issuance presented in "Reserves" was decreased by transaction costs directly attributable to the issuance in the total amount of PLN 37,763 thousand.

The increase in share capital was registered in the Commercial Register of the National Court Register on 19 January 2016.

In connection with acquisitions of shares of Pfleiderer GmbH (note 33) by the Company, the part of costs related to shares issuance will be reimbursed by Atlantik S.A. (through sale price calculation mechanism). As a result, the value of transaction costs associated with the issuance of shares, which decreases the Company's equity, will be reduced by approximately PLN 16 mio as on the shares acquisition date.

21.2. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares. For the financial year ended 31 December 2015 there were no changes in share premium.

21.3. Statutory reserve funds

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

In 2015, the Company transferred PLN 60,549 thousand from its 2014 net profit to statutory reserve funds.

21.4. Dividends

The Company did not pay dividend in 2015.

(all amounts in PLN thousand)

22. Earnings per share

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial year. The Company's net profit attributable to ordinary shares for the financial year ended 31 December 2015 amounted to PLN 69,106 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31December 2014 was PLN 60,549 thousand.

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

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

	1 Jan 2015 31 Dec 2015	**1 Jan 2014 31 Dec 2014**
Number of shares as at 1 January	49,624,000	49,624,000
Number of shares as at 31 December	49,624,000	49,624,000
Weighted average number of shares as at 31 December	49,624,000	49,624,000

Basic and diluted earnings per share:

	1 Jan 2015 31 Dec 2015	**1 Jan 2014 31 Dec 2014**
Basic earnings per share as at 31 December	1.39	1.73
Diluted earnings per share as at 31 December	1.39	1.73

23. Borrowings and other debt instruments

	31 Dec 2015	**31 Dec 2014**
Current liabilities		
Overdraft facilities	-	11,149
Total	**-**	**11,149**

The Company has credit loans available in the form of overdraft facility and multipurpose credit facilities. As at 31 December 2015, the Company does not have any liabilities under bank borrowings. As at 31 December 2014 liabilities under bank borrowings were PLN 11,149 thousand. In the period from 1 January 2015 to 31 December 2015, Pfleiderer Grajewo S.A. repaid all of its overdraft facilities of 31 December 2014 in the amount of PLN 6,051 thousand and all of its multipurpose credit facilities in amount of PLN 5,098 thousand, respectively.

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

(all amounts in PLN thousand)

Terms and repayment schedules of the bank borrowings as at 31 December 2015 and 31 December 2014:

Lender	Currency	Interest rate	Maturity date	Security	Credit limit	31 Dec 2015 Current portion	31 Dec 2015 Non-current portion	31 Dec 2014 Current portion	31 Dec 2014 Non-current portion
Millennium S.A.	PLN	1M WIBOR + margin	25 Jun 2018	mortgage, registered pledge	75,000	-	-	2,373	-
Millennium S.A.	PLN	1M WIBOR + margin	25 Jun 2016	mortgage, registered pledge	25,000	-	-	2,361	-
Alior Bank S.A.	PLN	1M WIBOR + margin	25 Jun 2018	mortgage	75,000	-	-	826	-
Alior Bank S.A.	PLN	1M WIBOR + margin	25 Jun 2016	mortgage	25,000	-	-	868	-
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	25 Jun 2018	mortgage, registered pledge	45,000	-	-	-	-
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	25 Jun 2016	mortgage, registered pledge	15,000	-	-	1,966	-
Bank Ochrony Środowiska S.A.	PLN	1M WIBOR + margin	14 Oct 2015	mortgage, registered pledge	-	-	-	2,725	-
					260,000	-	-	**11,149**	-

(all amounts in PLN thousand)

On 26 and 27 June 2013, the Company and the subsidiaries: Pfleiderer Prospan S.A. and Silekol Sp. z o.o. concluded current credit facility agreements. On 14 October 2015, the agreement with Bank Ochrony Środowiska was terminated on mutual consent. (as at 31 December 2015, the repayment date was scheduled for 25 June 2018). Remaining agreements are still in force. As at 31 December 2015, the total credit limit available under the facilities provided by those three banks amounts to PLN 260,000 thousand and secures Company's financial liquidity.

23.1. Revolving Facility Agreement

On 5 October 2015, the entity Pfleiderer Grajewo S.A. along with other companies belonging to the Pfleiderer Group:

Pfleiderer GmbH,	Pfleiderer Services GmbH,	Pfleiderer Holzwerkstoffe GmbH,
Pfleiderer Neumarkt GmbH,	Pfleiderer Leutkirch GmbH,	Pfleiderer Gütersloh GmbH,
Pfleiderer Arnsberg GmbH,	Pfleiderer Baruth GmbH,	Jura Spedition GmbH,
Pfleiderer Vermögensverwaltung GmbH & Co. KG,		
Pfleiderer Prospan S.A.	Pfleiderer MDF Sp. z o.o.	Silekol Sp. z o.o.

concluded the Amendment Agreement amending the super master revolving credit facility of 4 July 2014 concluded by entities belonging to the Western Segment of the Pfleiderer Concern. This Agreement is called the "Revolving Facility Agreement" and was concluded with the mandated lead arrangers, which include:

Commerzbank Aktiengesellschaft,	Deutsche Bank AG Filiale Deutschlandgeschäft,
KFW,	BNP Paribas S.A. Niederlassung Deutschland,
Alior Bank S.A	Powszechna Kasa Oszczędności Bank Polski S.A,
Bank Zachodni WBK S.A	Bank Millennium S.A

and

Commerzbank International S.A.	as the credit agent "Agent"
Commerzbank Aktiengesellschaft	as a security agent "Security Agent"
Filiale Luxemburg	as a security agent "Security Agent"

All amendments to the Revolving Facility Agreement were concluded conditionally and entered into force on 19 January 2016 along with the completion of the reorganization of the Group Pfleiderer Grajewo S.A. Group.

With effect from 19 January 2016, the Company and the subsidiaries Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. became borrowers under the Revolving Facility Agreement (along with Pfleiderer GmbH and Pfleiderer Holzwerkstoffe GmbH). In addition, under certain conditions, Pfleiderer Grajewo S.A. may request its other subsidiaries to join the Revolving Facility.

Under the Revolving Facility Agreement, the original amount of the revolving facility of EUR 60,000 thousand was increased by inclusion of additional tranche in the amount of PLN 200,000 thousand. Credits facilities will be provided for use in the form of payments in EUR and PLN, and in the form of Ancillary Facilities (as defined below).

The date of expiry of the agreement and its full repayment has been established as 30 April 2019.

The Lender, or its affiliates, may provide a particular borrower with all or part of the unused funds under the Revolving Facility Agreement through ancillary facilities (such as overdrafts, guarantees, bonds, letters of credit, short-term loans and other loans or solutions required in a connection with the operations of Pfleiderer Grajewo S.A. and its subsidiaries, which have been agreed between Pfleiderer Grajewo S.A. and the particular borrower or its associated company).

The total agreed limits amount to EUR 20,000 thousand in case of tranches in EUR and PLN 120,000 thousand in case of tranches in PLN.

(all amounts in PLN thousand)

Funds paid under the Revolving Facility Agreement will be assigned to financing corporate needs and the working capital of Pfleiderer Grajewo Group, whereby they cannot be assigned to redeem, repay, repay early, purchase or cancel any Senior Secured Notes issued by Pfleiderer GmbH on 7 July 2014.

23.2. Liabilities under borrowings from related parties

As at 31 December 2015 and 31 December 2014, the Company did not carry any borrowings from related parties.

24. Employee benefit obligations

	31 Dec 2015	31 Dec 2014
Salaries and wages	1,996	1,893
Personal income tax	816	733
Social security	2,307	2,236
Social Benefits Fund	1,608	1,588
Retirement benefit obligations	8,565	9,269
Unused holiday accrual	1,854	1,965
Employee bonus accrual	3,979	4,478
Total	**21,125**	**22,162**
Non-current portion	7,773	8,754
Current portion	13,352	13,408

Retirement bonus and disability severance payment obligations

Under the remuneration plans employees of the Company are entitled to retirement payments payable to employees after elapse of a defined number of years in service as well as retirement and pension benefits, paid once upon retirement. The amount of retirement and pension benefits depends on the number of years in service and an employee's average remuneration.

Every employee reaching the retirement age (67 years, based on the transitional regulations – Dz. U. of 6 June 2012, item 637), who has the required documented years of service, is entitled to receive retirement money.

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 payment 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 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.

Assumptions used for calculation of the retirement bonus:

- Data on staff turnover was derived from the statistics of Pfleiderer Grajewo S.A. and from the statistics available to an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. To reflect 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 future mortality rate was based on the probability of death depending on age and based on published statistics and the information from 2014 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the mortality rate of the population of the Company's employees is similar to tables, adjusted for the mortality multiplier. Additionally it was assumed that the mortality rate is constant throughout the whole year.
- The probability of becoming a disabled person was based on the historical data from the Social Insurance Institution and estimates prepared by an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. According to the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does not demonstrate significant sensitivity to slight changes of this parameter.
- The default retirement age for men is 67, based on the transitional regulations of 6 June 2012.
- In accordance with the rules governing the award of retirement bonuses, persons terminating their employment with the Company lose their rights to any future retirement bonus and disability severance payment.
- All benefits were calculated is the beginning of each calendar year, with the assumption that all of them are regular distributed throughout the year.
- The calculations were made in PLN.
- The increase in salaries and wages was assumed at 3% - 3.5% per annum.
- The discount rate on future benefits was assumed at 2.87%.

Liabilities under employees bonus

The Company recognises a provision for quarterly and annual bonuses paid to the Company employees. Bonuses related to specific completed tasks for which employees will receive cash remuneration in the future.

25. Trade and other payables

	31 Dec 2015	31 Dec 2014
Trade payables	63,600	49,210
Liabilities under factoring agreements	33,271	16,498
Liabilities from capital expenditures	9,415	14,217
Other liabilities	30,734	5,259
Total	**137,020**	**85,184**

As at 31 December 2015, other liabilities include in particular prepaid deliveries of PLN 765 thousand, accruals (including audit costs, environmental charge, insurance and guarantees) of PLN 2,506 thousand, and settlements with the insurance company from the property insurance and trade credit insurance of PLN 1,653 thousand and liabilities from capital expenditures related to issue of E series shares of PLN 24,458 thousand.

As at 31 December 2014, other liabilities include in particular prepaid deliveries of PLN 612 thousand, accruals (including audit costs, environmental charge, insurance and guarantees) of PLN 2,008 thousand, and an additional provision for claim risks related to the sale of shares in subsidiaries in Russia, in the amount of PLN 1,920 thousand.

(all amounts in PLN thousand)

Trade and other payables include the following financial liabilities:

	31 Dec 2015	31 Dec 2014
Trade payables	63,600	49,210
Liabilities under factoring agreements	33,272	16,498
Liabilities from capital expenditures	9,415	14,217
Other liabilities	29,318	4,047
Total	**135,605**	**83,972**

The exposure to currency and liquidity risk related to liabilities is presented in Note 27.

26. Liabilities to related parties under debt securities

	31 Dec 2015	31 Dec 2014
Liabilities to related parties under debt securities	233,767	278,503
Total	**233,767**	**278,503**

The liabilities under debt securities of PLN 233,767 thousand as at 31 December 2015 (31 December 2014: PLN 278,503 thousand) relate to the commercial papers issued in the form of short-term notes. As at 31 December 2015, the notes were held by Pfleiderer Prospan S.A., a subsidiary.

The notes were issued pursuant to a Debt Issuance Programme concluded with a bank. The maximum value of the notes that may be issued under the programme, ending June 2015, is PLN 500,000 thousand.

27. Financial instruments

Objectives and methods of financial risk management applied by the Company

The Company's financial risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's operations are exposed to the following risks:

– credit risk
– market risk, including:
- foreign currency risk and
- interest rate risk

– liquidity risk

The objective of the Company's credit risk management is to reduce losses which could be incurred due to customers' insolvency. This risk is reduced by insurance of receivables and factoring services.

Market risk is the risk that changes in market prices – such as foreign exchange rates and interest rates – will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to reduce the unfavourable effects of changes in market risk factors on the cash flows and financial results.

Market risk management is conducted using derivative instruments which are used solely to reduce the risk of changes in fair value and risk of changes in cash flows.

(all amounts in PLN thousand)

As far as market valuation of the instruments is concerned, the Company uses its own records and valuation for derivatives as well as relies on information obtained from market leading banks, brokers and information services. Derivative (currency forwards) transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

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

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

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

27.1. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

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

Credit risk associated with bank deposits is assessed by the Company as low due to deposits its assets only in financial institutions which have the high short-term credit rating.

Credit risk is analysed for all customers who require trade credit above pre-defined limits. Generally the Company does not require any security on customer assets.

In order to reduce the risk of customers' insolvency, the Company also insures a portion of its receivables within the organized trade credit insurance programs. As at the end of 2015, approximately 90% of total trade receivables from non-related parties were covered with trade credit insurance. The insurance policies secured credit risk – if a customer fails to pay, the insurer covers the loss.

The Company did not incur any significant losses due to customers default. Allowances for impairment losses are created on uninsured receivables and on amounts corresponding to the Company's deductibles in receivables insured, based on 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.

The total credit risk exposure was as follows:

	31 Dec 2015	31 Dec 2014
Loans advanced and receivables	412,601	50,882
Cash and cash equivalents	30,983	4,527
Total	**443,584**	**55,409**

(all amounts in PLN thousand)

As at 31 December 2015 and 31 December 2014, the ageing structure of trade receivables was as follows:

	Gross value **31 Dec 2015**	Impairment losses **31 Dec 2015**
Not overdue	17,330	-
Overdue by:		
0–180 days	21,718	256
180–360 days	-	-
More than 360 days	3,154	3,154
Total	**42,202**	**3,410**

	Gross value **31 Dec 2014**	Impairment losses **31 Dec 2014**
Not overdue	17,494	-
Overdue by:		
0–180 days	4,081	1,450
180–360 days	92	25
More than 360 days	3,160	3,160
Total	**24,827**	**4,635**

Movements in the allowance for doubtful trade receivables in the twelve months ended 31 December 2015 and 31 December 2014 are presented below:

	1 Jan 2015 **31 Dec 2015**	**1 Jan 2014** **31 Dec 2014**
Balance at beginning of the period	4,635	5,665
Decrease in impairment losses	(1,225)	(1,030)
Balance at end of the period	**3,410**	**4,635**

(all amounts in PLN thousand)

27.2. Interest rate risk

The Company holds cash at banks, has receivables under loans granted, as well as liabilities under bank borrowings and other debt instruments. Interest rate risk related to cash flow of financial instruments is dependent on the floating interest rates. As at the end of each reporting period, the Company did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

	31 Dec 2015	31 Dec 2014
Fixed-rate financial instruments		
Financial liabilities	233,767	278,503
	233,767	**278,503**
Variable-rate financial instruments		
Financial assets	10,473	10,027
Financial liabilities	-	11,149
	10,473	**21,176**

Sensitivity of cash flows from variable-rate financial instruments

A 100 basis points (1%) change in interest rates would lead to a change in net profit and equity by the amounts presented below. The analysis is based on the assumption that other variables, especially currency exchange rates, remain unchanged.

	1 Jan 2015–31 Dec 2015		1 Jan 2014–31 Dec 2014	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments and effect on profit/(loss) before tax	(157)	157	(601)	601
Effect on equity	(157)	157	(601)	601

Sensitivity of fair value of fixed-rate financial instruments

The Company does not possess any significant fixed-rate financial assets or liabilities measured at fair value through profit or loss or any interest rate derivatives as hedging instruments. Therefore, a change in interest rates at the reporting date would not affect statement of profit and loss and other comprehensive income through changes in the fair value of financial instruments.

27.3. Currency risk

The Company is exposed to currency risk mainly due to the extent that there is a mismatch between the currencies in which trade transactions, purchases of materials and merchandise are denominated. However, foreign exchange gains or losses resulting from exchange rate fluctuations partly offset each other (natural hedging). The Company monitors its foreign currency positions on an ongoing basis and hedges its currency risk of open positions with forward transactions.

Forward and swap transactions included purchase of foreign currency at a predetermined rate. In 2015, the Group used forward contracts to hedge its currency risk related to business transactions (export of goods). The forward contracts used to hedge the Company's business transactions consist in the sale of EUR at a pre-determined rate. This helps to secure margins on export sales and to mitigate the risk of adverse changes of the margins due to appreciation of the Polish zloty.

As at 31 December 2015, the Company held 29 open EUR/PLN FX forward contracts for the sale of EUR 56,800 thousand with settlement period between 28 January 2016 and 28 December 2017. As at 31 December 2015 Pfleiderer Grajewo S.A. recognised a gain on valuation of the open contracts of PLN 1,981 thousand (fair value – Level 2). As at 31 December 2014, , the Company held 30 open EUR/PLN FX forward contracts for the sale of EUR 65,080 thousand with settlement period until December 2016.

Additionally, as at 31 December 2015 the Company held 1 open EUR/PLN FX forward for the purchase of EUR 509,219 thousand with settlement period on 27 January 2016. This transaction secured the PLN/EUR risk resulting from Company's liability to pay for acquisition of shares in Pfleiderer GmbH. As at 31 December 2015 Pfleiderer Grajewo S.A. recognised a loss on valuation of this open contract of PLN (51) thousand (fair value – Level 2).

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

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

31 Dec 2015:	EUR	USD	RON
Cash and cash equivalents	16 058	143	-
Trade receivables and prepayments	5 189	(60)	-
Trade and other payables	(22 527)	(23)	(18)
Balance-sheet exposure, gross	**(1 280)**	**60**	**(18)**
Transactions in derivative instruments:			
- hedging of expected sales transactions	(242 053)		
- hedging the transaction of acquisition of shares in Pfleiderer GmbH	508 312		
Net exposure under financial instruments	**264 979**	**60**	**(18)**

31 Dec 2014:	EUR	USD	RON
Cash and cash equivalents	3,301	6	-
Trade receivables and prepayments	4,033	-	-
Other receivables	19,180	-	-
Trade and other payables	(17,611)	-	(18)
Balance-sheet exposure, gross	**8,903**	**6**	**(18)**
Transactions in derivative instruments:			
- hedging of expected sales transactions	(277,390)		
Net exposure under financial instruments	**(268,487)**	**6**	**(18)**

(all amounts in PLN thousand)

Sensitivity to currency exchange rate changes

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

31 Dec 2015:	**change +5%**	**change -5%**
EUR	(64)	64
USD	3	(3)
GBP	-	-
RUB	-	-
RON	(1)	1
Effect on profit before tax	**(62)**	**62**
Effect on net profit	**(50)**	**50**
Effect on equity	**10,783**	**(10,783)**

31 Dec 2014:	**change +5%**	**change -5%**
EUR	445	(445)
USD	-	-
GBP	-	-
RUB	-	-
RON	(1)	1
Effect on profit before tax	**444**	**(444)**
Effect on net profit	**444**	**(444)**
Effect on equity	**(11,234)**	**11,234**

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

Currency	**Exchange rate as at 31 Dec 2015**	**Exchange rate as at 31 Dec 2014**
EUR	4.2615	4.2623
USD	3.9011	3.5072
GBP	5.7862	5.4648
RUB	0.0528	0.0602
RON	0.9421	0.9510

27.4. Liquidity risk

As at 31 Dec 2015:

	Carrying amount	**Contractual cash flows**	**Below 6 months**	**6-12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Overdraft facilities	-	-	-	-	-	-	-
Liabilities under debt securities	233,767	234,500	234,500	-	-	-	-
Trade and other payables	135,605	135,605	135,605	-	-	-	-
	369,372	**370,105**	**370,105**	-	-	-	-

(all amounts in PLN thousand)

As at 31 Dec 2014:

	Carrying amount	Contractual cash flows	Below 6 months	6-12 months	1–2 years	2–5 years	More than 5 years
Overdraft facilities	11,149	11,149	11,149	-	-	-	-
Liabilities under debt securities	278,503	279,300	279,300	-	-	-	-
Trade and other payables	83,972	83,972	83,972	-	-	-	-
	373,624	**374,421**	**374,421**	-	-	-	-

As at 31 December 2015, the Company's has no debt under bank borrowings and amounts outstanding under credit facilities. As at 31 December 2015, unused credit facilities amounted to PLN 245,426 thousand. Total amount of credit limits amounts to PLN 260,000 thousand. Credit limits of PLN 65,000 thousand are available until 25 June 2016, and credit limits of PLN 195,000 thousand are available until 25 June 2018. For details, see Note 23 to these financial statements. The Company held cash of PLN 30,983 thousand.

In 2015, the Company also financed its operations by issuing short-term notes which were acquired by its subsidiary Pfleiderer Prospan S.A. After redemption, a new series of short-term notes is usually issued for another period, which provides a constant source of financing for the Company.

27.5. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximate their carrying amounts as at 31 December 2015 and 31 December 2014.

27.6. Capital management

The key ratio used by Pfleiderer Grajewo S.A. to monitor equity is the ratio of *equity to total assets*. In 2015, the ratio increased from 63.14% to 73.23% as a result of net profit for the current year and increase of Company's assets.

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

	31 Dec 2015	Dec 31 2014
Equity	1,074,902	684,791
Total assets	1,467,907	1,084,496
Ratio:		
$\frac{\text{Equity}}{\text{Total assets}}$	73.23 %	63.14 %

The Company manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. The Company did not pay dividend in 2015.

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

28. Operating lease agreements

The Company leases a number of production assets and company cars under operating lease agreements. The leases of production assets (forklifts, production line) typically run for a period of 3 years. The agreements will expire in November 2016. Monthly lease payments are charged to the reporting period's profit or loss using the straight-line method.

The Company leases company cars under operating lease agreements. The term of all those agreements is 36 months and the agreements will expire in 2016-2019.

The costs incurred by the Company under the operating lease agreements in 2015 were PLN 3,947 thousand (2014: PLN 4,006 thousand).

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

	31 Dec 2015	31 Dec 2014
Up to one year	1,054	4,123
From 1 to 5 years	593	991
Total	**1,674**	**5,114**

29. Contractual commitments to acquire property, plant and equipment and intangible assets

As at 31 December 2015, the Company had contractual commitments to acquire property, plant, equipment and intangible assets. The commitments relate to 7 open investment projects and were incurred under agreements concluded by the Company as part of its investment activities.

	31 Dec 2015	31 Dec 2014
Commitments to acquire property, plant and equipment and intangible assets	2 765	361
- fixed assets	*2 756*	*134*
- intangible assets	*9*	*227*

30. Contingent liabilities and security

As at 31 December 2015, the Company had issued the following sureties:

Debtor	Creditor	Origination date	Amount of liability maximum	in foreign currency	PLN '000	Expiry date
Sureties in EUR:						
Pfleiderer MDF Sp. z. o.o.	PKO BP S.A.	24 Apr 2009	1,115	1,115	4,752	15 Jul 2019
Pfleiderer Prospan S.a.	Robert Burkle GmbH	23 Jul 2015	1,668	-	-	25 Jul 2016
		Total:	**2,783**	**1,115**	**4,752**	
Sureties in PLN:						
Pfleiderer Prospan S.A., Silekol Sp. z o.o.	BZ WBK S.A.	26 Jun 2013	15,000	-	-	25 Jun 2016
Pfleiderer Prospan S.A.	Alior Bank S.A.	26 Jun 2013	11,500	-	-	25 Jun 2016
Silekol Sp. z o.o.	Alior Bank S.A.	26 Jun 2013	11,500	-	-	25 Jun 2016
Pfleiderer Prospan S.A.	Millennium S.A.	26 Jun 2013	11,500	-	-	25 Jul 2016
Silekol Sp. z o.o.	Millennium S.A.	26 Jun 2013	11,500	-	-	25 Jul 2016
			61,000	-	-	

Sureties presented in the table above include:

a) Surety of EUR 1,115 thousand (PLN 4,752 thousand) issued to Pfleiderer MDF Sp. z o.o. in connection with a credit facility given to Pfleiderer MDF Sp. z o.o. by PKO BP S.A. As at 31 December 2015, Pfleiderer MDF Sp. z o.o.'s liability under the facility was PLN 62,626 thousand. The surety expires on 15 July 2019;

b) Letter of credit of EUR 1,669 thousand (PLN 7,108 thousand) issued to Pfleiderer Prospan S.A. in connection with a contract for the construction of the kitchen worktop laminating line. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability towards Robert Burkle GmbH was PLN 0 thousand. The letter of credit expires on 25 July 2016.

c) Surety of PLN 15,000 thousand granted to Pfleiderer Prospan S.A. and Silekol Sp. z o.o. in connection with a credit facility given to Pfleiderer Grajewo S.A. and its subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o., by BZ WBK S.A. As at 31 December 2015, the amount of the companies' liability outstanding under the facility was PLN 0. The surety expires on 25 June 2016;

d) Surety of PLN 11,500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility given to Pfleiderer Prospan S.A. by Alior Bank S.A. As at 31 December 2014, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0. The surety expires on 25 June 2016;

e) Surety of PLN 11,500 thousand issued to Silekol Sp. z o.o. in connection with a credit facility given to Silekol Sp. z o.o. by Alior Bank S.A. As at 31 December 2015, Silekol Sp. z o.o.'s liability under the facility was PLN 0. The surety expires on 25 June 2016;

f) Surety of PLN 11,500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility given to Pfleiderer Prospan S.A. by Millennium Bank S.A. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0. The surety expires on 25 July 2016;

g) Surety of PLN 11,500 thousand issued to Silekol Sp. z o.o. in connection with a credit facility extended to Silekol Sp. z o.o. by Millennium S.A. As at 31 December 2015, Silekol Sp. z o.o.'s liability under the facility was PLN 0. The surety expires on July 25 July 2016;

As at 31 December 2014, the Company had issued the following sureties:

Debtor	Creditor	Origination date	Amount of liability maximum	Amount of liability in foreign currency	PLN '000	Maturity date
Sureties in EUR:						
Pfleiderer MDF Sp. z. o.o.	PKO BP S.A.	24 Apr 2009	1,115	1,115	4,752	15 Jul 2019
		Total:	**1,115**	**1,115**	**4,752**	
Sureties in PLN:						
Pfleiderer Prospan S.A., Silekol Sp. z o.o.	BZ WBK S.A.	26 Jun 2013	15,000	-	399	25 Jun 2016
Pfleiderer Prospan S.A.	Alior Bank S.A.	26 Jun 2013	11,500	-	-	25 Jun 2016
Silekol Sp. z o.o.	Alior Bank S.A.	26 Jun 2013	11,500	-	-	25 Jun 2016
Pfleiderer Prospan S.A.	Millennium S.A.	26 Jun 2013	11,500	-	222	25 Jul 2016
Silekol Sp. z o.o.	Millennium S.A.	26 Jun 2013	11,500	-	-	25 Jul 2016
			61,000	-	**621**	

Court proceedings

As of the end of 2015, the Company did not identify any significant contingent liabilities except for a potential liability resulting from the antitrust proceedings described below.

Following an inspection in October 2011, on 30 March 2012 the Polish Office of Competition and Consumer Protection (the "OCCP") commenced proceedings against 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., regarding possible horizontal price fixing and exchange of information on conditions of sale in the chipboard and fibreboard markets in Poland, which may constitute breaches of Article 6 of the Act on Competition and Consumer Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. The maximum fines that the OCCP may impose on Pfleiderer Grajewo S.A. and/or Pfleiderer Prospan S.A. in these proceedings amount to 10% of their respective tax revenues in the year preceding the issuance of the infringement decision. The end date of the proceedings is still uncertain.

At the date of the publication of these financial statements it is unclear whether OCCP will determine any breaches of Article 6 of the Act on Competition and Consumer Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. At this stage, given the fact-intensive nature of the issues involved and the inherent uncertainty of such investigation, it is not possible to evaluate the outcome and potential financial consequences of this still pending and long-lasting investigation, management has determined that not all of the conditions have been met to require a provision for this matter Therefore as at 31 December 2015 no provision has been recognized by the Company in its annual financial statements.

(all amounts in PLN thousand)

31. Material related-party transactions

In the 2015 and 2014 financial year, the Company executed the following commercial transactions with related parties:

	1 Jan - 31 Dec 2015											
Related party	**Sales of goods (finished or unfinished)**	**Rendering services**	**Financial income**	**Other operating income**	**Dividend income**	**Purchase of goods (finished and unfinished)**	**Receiving of services**	**Acquisition of property and other assets**	**Transfers under licence agreements**	**Other operating costs**	**Financial costs**	**Costs related to obtaining of new financing**
Pfleiderer MDF Sp. z o.o.	98,196	14,638	447	1,227	-	59,822	5,436	-	-	-	-	-
Pfleiderer Prospan S.A.	8,363	14,130	-	2,521	31,379	2,719	3,251	2,145	-	-	4,422	-
Silekol Sp. z o.o.	-	1,467	-	140	13,527	65,587	-	42	-	-	-	-
Jura Polska Sp. z o.o.	-	837	-	70	-	4,169	19,633	3	-	-	-	-
Grajewo OOO	-	-	-	-	511	-	-	-	-	-	-	-
Pfleiderer GmbH	-	12	-	-	-	-	617	18	2,102	-	-	1,413
Pfleiderer Leutkirch GmbH	-	-	-	-	-	-	-	57	-	-	-	-
Jura Speditions GmbH	-	-	-	-	-	-	2	9	-	-	-	-
Heller Holz GmbH	-	-	-	-	-	-	-	9	-	-	-	-
Pfleiderer Arnsberg GmbH	-	-	-	-	-	-	-	104	-	-	-	-
Pfleiderer Baruth GmbH	-	-	-	-	-	-	-	29	-	-	-	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	539	-	-	-	-	1,588	257	1,610	-	31	-	-
Pfleiderer Neumarkt GmbH	3,334	-	-	-	-	-	-	85	-	-	-	-
Pfleiderer Gütersloh GmbH	3,889	-	-	-	-	-	753	104	-	-	-	-
Total	114,321	31,084	447	3,958	45,417	133,885	29,949	4,215	2,102	31	4,422	1,413

(all amounts in PLN thousand)

Related party	1 Jan - 31 Dec 2014									
	Sales of goods (finished or unfinished)	**Rendering services**	**Financial income**	**Other operating income**	**Dividend income**	**Purchase of goods (finished and unfinished)**	**Receiving of services**	**Acquisition of property and other assets**	**Transfers under licence agreements**	**Financial costs**
Pfleiderer MDF Sp. z o.o.	101,344	13,753	502	-	-	54,843	4,141	-	-	-
Pfleiderer Prospan S.A.	2,665	12,217	-	-	16,931	3,945	3,284	-	-	7,024
Silekol Sp. z o.o.	-	946	-	-	21,018	68,630	-	-	-	-
Jura Polska Sp. z o.o.	-	736	-	13	46	5,346	15,993	-	-	-
Grajewo OOO	2,076	-	-	-	-	-	-	-	-	-
Pfleiger Service GmbH	-	-	-	-	-	-	49	-	-	-
Pfleiderer GmbH	-	-	-	-	-	-	669	-	2,083	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	-	-	-	75	-	1,605	46	21	-	-
Pfleiderer Neumarkt GmbH	92	-	-	-	-	-	-	-	-	-
Pfleiderer Gütersloh GmbH	-	-	-	-	-	-	731	-	-	-
Total	106,177	27,652	502	88	37,995	134,369	24,913	21	2,083	7,024

(all amounts in PLN thousand)

Related-party transactions as at 31 December 2015 and 31 December 2014:

a) financial, trade and other receivables:

	31 Dec 2015		31 Dec 2014	
Related party	**Balance of loans advanced**	**Balance of trade receivables**	**Balance of loans advanced**	**Balance of yrade receivables**
Pfleiderer MDF Sp. z o.o.	10,473	27,082	10,027	6,842
Pfleiderer Prospan S.A.	-	491	-	1,297
Silekol Sp. z o.o.	-	116	-	116
Jura Polska Sp. z o.o.	-	134	-	68
Pfleiderer Neumarkt GmbH	-	549	-	-
Pfleiderer Gütersloh GmbH	-	160	-	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	-	158	-	-
Total	**10,473**	**28,690**	**10,027**	**8,323**

b) financial liabilities, trade and other payables:

	31 Dec 2015			31 Dec 2014		
Related party	**Balance of liabilities under debt securities**	**Balance of investment commitments**	**Balance of trade liabilities**	**Balance of liabilities under debt securities**	**Balance of investment commitments**	**Balance of trade liabilities**
Pfleiderer MDF Sp. z o.o.	-	-	6,592	-	-	4,917
Pfleiderer Prospan S.A.	233,767	-	-	289,503	-	-
Silekol Sp. z o.o.	-	52	13,414	-	-	11,910
Jura Polska Sp. z o.o.	-	3	3,549	-	-	723
Pfleiderer GmbH	-	19	1,451	-	-	601
Pfleiderer Neumarkt GmbH	-	86	-	-	-	-
Pfleiderer Gütersloh GmbH	-	105	61	-	-	52
Pfleiderer Leutkirch GmbH	-	57	-	-	-	-
Pfleiderer Arnsberg GmbH	-	29	-	-	-	-
Pfleiderer Arnsberg GmbH	-	104	-	-	-	-
Jura Speditions GmbH	-	9	2	-	-	-
Heller Holz GmbH	-	9	-	-	-	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	-	1,617	55	-	-	71
Total	**233,767**	**2,090**	**25,124**	**278,503**	**-**	**18,274**

All related-party transactions were executed on an arm's length basis.

No security was created for any outstanding receivables, and all such receivables will be settled in cash. Issued securities have been described in note 30 of this financial statement. In the reporting period, no costs related to doubtful or non-performing receivables under related-party transactions were recognised.

(all amounts in PLN thousand)

Remuneration of members of the Management and Supervisory Boards

Short- term employee benefits of members of the Pfleiderer Grajewo S.A. Management Board (including bonuses) paid and payable for the reporting period was:

Name	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Michael Wolff	845	-
Rafał Karcz	570	807
Gerd Schubert	549	-
Wojciech Gątkiewicz	1,061	1,407
Dariusz Tomaszewski	595	805
Total	**3,620**	**3,019**

As at 31 December 2015, members of the Management Board held the following number of Pfleiderer Grajewo shares:

- President of the Management Board Wojciech Gątkiewicz - 5,400 Company shares
- Member of the Management Board Rafał Karcz - 3,472 Company shares
- Member of the Management Board Dariusz Tomaszewski (Member of the Management Board until 2 March 2016) - 4,108 Company shares

Remuneration paid to members of Pfleiderer Grajewo S.A.'s Supervisory Board in the reporting period was as follows:

Name	1 Jan 2015 31 Dec 2015	1 Jan 2014 31 Dec 2014
Paolo G. Antonietti	192	-
Michael F. Keppel	96	-
Jochen Schapka	105	105
Richard Mayer	105	105
Jan Woźniak	105	105
Christoph Mikulski	59	-
Gerd Hammerschmidt	59	52
Michael Wolff	-	210
Gerd Schubert	-	53
Total	**721**	**630**

As at 31 December 2015, Mr. Paolo G. Antonietti, Member of the Pfleiderer Grajewo S.A. Supervisory Board, held 4,000 shares in Pfleiderer Grajewo S.A.

Other members of the Pfleiderer Grajewo S.A. Supervisory Board did not hold any shares in the Company at the end of 2015.

As at 31 December 2015, the members of the Management and Supervisory Boards of Pfleiderer Grajewo S.A. had no outstanding debt under loans from the Company.

32. Additional information to the separate statement of cash flows

Structure of cash and cash equivalents

	31 Dec 2015	31 Dec 2014
Cash in hand and at banks	30,983	4,527
Cash disclosed in the statement of cash flows	**30,983**	**4,527**

(all amounts in PLN thousand)

Change in liabilities

	31 Dec 2015	31 Dec 2014
Change in trade and other payables	51,838	(36,928)
Change in investment liabilities	4,802	(7,444)
Liabilities from the transactional costs associated with the issuance of shares	(24,458)	-
Liabilities from arranging of new financing	(1,518)	-
Change in liabilities presented as disposal of a subsidiary	1,920	6,598
Liabilities from acquisition of subsidiary	(633)	-
Liabilities from purchase of minorities	-	30,351
	31,949	**(7,423)**

33. Events subsequent to the end of the reporting period

Commercial papers issuance

After 31 December 2015, Pfleiderer Grajewo S.A. carried out 11 issues of commercial paper in the form of short-term notes with a view to optimising the Company's financial liquidity management. The notes were issued under the Note Issue Programme Agreement executed on 22 July 2003 with Bank PEKAO S.A. The notes were issued in accordance with the Polish Bonds Act of 29 June 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Prospan S.A

Registration of capital under issue of series E shares

On 19 January 2016, the District Court in Białystok made a record in the business register, concerning an increase in the share capital of Pfleiderer Grajewo S.A. from the sum of PLN 16,376 thousand to the sum of PLN 21,351 thousand through the issue of 15,077,007 series E ordinary shares of PLN 0.33 in par value each, issued pursuant to Resolution No. 3 of the Extraordinary General Shareholders Meeting of 27 July 2015 concerning the increase in the share capital of the Company by way of issuing of new shares, a public offering of newly issued shares, the exclusion of all the pre-emptive rights of the existing shareholders with respect to all the newly issued shares, the dematerialization and seeking of the admission of the rights to shares and the newly issued shares to trading on a regulated market operated by the Warsaw Stock Exchange and the amendment to the Company's statute, as well as authorizing the Supervisory Board of the Company to adopt the consolidated text of the Company's statute.

The aforementioned series E shares were issued by the Company at an issue price of PLN 24.00 for 1 share.

Due to the registration of the increase of the share capital of the Pfleiderer Grajewo S.A. on 19 January 2016, the Company and Atlantik S.A. concluded an agreement, under which the Company purchased the sole share in Pfleiderer GmbH of EUR 30,000 thousand in par value, as representing 100% of the share capital of Pfleiderer GmbH and authorizing the exercise of 100% of voting rights at the meeting of shareholders of Pfleiderer GmbH.

The aforementioned agreement was concluded based on a conditional sales agreement concluded on 5 October 2015 by the Company and Atlantik S.A.

Before 19 January 2016, Pfleiderer GmbH was the intermediate parent of the Company.

Purchase of the share in Pfleiderer GmbH by the Company was the last element of the reorganization process of the entire Pfleiderer capital group, as a result of which Pfleiderer Grajewo S.A. became the Parent Company of the Pfleiderer concern.

(all amounts in PLN thousand)

Revolving facility agreement

The result of the completion of the Reorganization a condition precedent stipulated in the agreement (the "Amending Agreement") amending the super senior revolving credit facility agreement of 4 July 2014 (taking into account the changes ensuing from the Amending Agreement- the "Revolving Credit Facility Agreement") executed on 5 October 2015 by the Company was fulfilled. On the day of the Amending Agreement's becoming effective, the Company and its subsidiaries, i.e. Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o. and Silekol sp. z o.o., became borrowers under the Revolving Credit Facility Agreement. The Revolving Credit Facility Agreement is described in details in Note 17 to this financial statement.

Shareholders

On 25 January 2016 and 4 February 2016, Pfleiderer Grajewo S.A. received notifications from Atlantik S.A., Pfleiderer Service GmbH and Pfleiderer GmbH concerning the reduction of share in the total number of voting rights at the General Meeting of shareholders of the Company. On 25 January 2016, Pfleiderer Grajewo S.A. received a notification from Strategic Value Partners, LLC, concerning an increase in the total number of voting rights at the General Meeting of shareholders of the Company.

	Shareholding structure after Initial Public Offering		
		Number of shares	**%**
1	Strategic Value Partners LLC*	16 772 896	25,92%
2	Atlantik S.A.	16 374 497	25,31%
3	Aviva OFE Aviva BZ WBK	4 928 816	7,62%
4	ING OFE	2 639 144	4,08%
5	Other shareholders	23 985 654	37,07%
		64 701 007	100,00%

	Subsidiaries of Strategic Value Partners LLC directly holding shares of Pfleiderer Grajewo SA		
		Number of shares	**%**
1	Yellow Saphire S.a.r.l.	6 172 705	9,54%
2	Brookside S.a.r.l.	5 076 738	7,85%
3	Field Point IV S.a.r.l.	3 079 810	4,76%
4	Kings Forest S.a.r.l.	1 745 520	2,70%
5	Field Point V S.a.r.l.	449 409	0,69%
6	Field Point Acquisitions S.a.r.l.	248 714	0,38%
		16 772 896	**25,92%**

Additionally, Pfleiderer Grajewo S.A. received notification on the purchase of shares by:

1) Strategic Value Partners LLC (direct purchase of shares),

2) Brookside S.a.r.l. oraz Yellow Saphire S.a.r.l. (indirect purchase of shares).

Changes in the Supervisory Board

On January 19, 2016, Richard Mayer (the then member of the Supervisory Board of the Company), Gerd Hammerschmidt (the then member of the Supervisory Board of the Company) and Jochen Schapka (the then member of the Supervisory Board of the Company) resigned from their seats in the Supervisory Board of the Company.

The resignations were submitted in relation to the completion of reorganization of the Pfleiderer capital group. As a result of the reorganization, including the purchase of one share in company Pfleiderer GmbH by the Company, the Company became the parent company to other companies from the Group, in which Richard Mayer, Gerd Hammerschmidt and Jochen Schapka served as members of management bodies or otherwise, which could have not been combined with seats in the Supervisory Board of the Company as the parent company.

On 19 February 2016, Mr Zbigniew Prokopowicz, Mr Krzysztof Sędzikowski and Mr Stefan Wegener were appointed to the position of the Members of the Supervisory Board. On 2 march 2016 Mr Zbigiew Prokopowicz was appointed to the position of the Deputy Chairman of the Supervisory Board.

On 2 March 2016, the Supervisory Board resolved to form a Transformation Committee at the Company's Supervisory Board, with members: Mr Paolo G. Antonietti, Mr Zbigniew Prokopowicz and Mr Stefan Wegener.

Changes in the Management Board

On 2 March 2016, Mr. Richard Mayer was appointed to the position of Member of Management Board-Chief Financial Officer and Mr. Rafał Karcz was dismissed from the position of Chief Financial Officer and appointed to the position of Member of Management Board - Chief Administration Officer.

On 2 March 2016, Mr. Dariusz Tomaszewski submitted resignation from the position of Member of Management Board – Sales Director.

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Administration Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Office

Richard Mayer
Member of the Management Board, Chief Financial Officer

Ewa Stańska
Person responsible for the accounting records

Grajewo, 18 March 2015

REPORT OF THE INDEPENDENT AUDITOR

TRANSLATION

Pfleiderer Grajewo S.A.

Supplementary report on the audit of the separate financial statements Financial Year ended 31 December 2015

The supplementary report contains 9 pages

The supplementary report on the audit of the separate financial statements for the financial year ended 31 December 2015

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

Contents

1. General

1.1. General information about the Company

1.1.1. Company name

Pfleiderer Grajewo S.A.

1.1.2. Registered office

ul. Wiórowa 1
19-203 Grajewo

1.1.3. Registration in the register of entrepreneurs of the National Court Register

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

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2015, the Management Board of the Company was comprised of the following members:

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

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

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

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

According to the resolution of the Supervisory Board dated 2 March 2016, Mr. Richard Mayer was appointed to the position of Member of the Management Board – Chief Financial Officer.

According to the resolution of the Supervisory Board dated 2 March 2016, Mr. Rafał Karcz was recalled from the position of Chief Financial Officer, and appointed for the position of Member of the Management Board – Chief Administration Officer.

On 2 March 2016, Mr. Dariusz Tomaszewski submitted resignation from position of Member of Management Board – Sales Director.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname:	Monika Bartoszewicz
Registration number:	10268

1.2.2. Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Inflancka 4A, 00-189 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 into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Prior period financial statements

The separate financial statements for the financial year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 30 June 2015 where it was resolved to allocate the net profit for the prior financial year of PLN 60,549 thousand to reserve capital.

The separate financial statements were submitted to the Registry Court on 15 July 2015.

1.4. 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 separate financial statements comprising: the separate statement of financial position as at 31 December 2015, the separate statement of profit and loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes to the annual separate financial statements comprising a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of the General Meeting dated 28 June 2005.

The separate financial statements were audited in accordance with the contract dated 12 January 2016, concluded on the basis of the resolution of the General Meeting dated 23 June 2010 on the appointment of the auditor.

We conducted our 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") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the separate financial statements at the Company during the period from 30 November to 4 December 2015 and from 18 January to 22 January 2016 and additional procedures have been performed outside the Company's head office from 8 February to 26 February 2016.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the 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 Company's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the separate financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit.

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

All required statements, explanations and information were provided to us by Management of the Company 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 2015, item 1011 with amendments).

2. Financial analysis of the Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000	% of total
Property, plant and equipment	162,348	11.1	155,814	14.4
Intangible assets	4,045	0.2	2,582	0.2
Investments in subsidiaries	785,743	53.5	785,752	72.5
Long term investments	75	-	75	-
Non-current loans advanced to subsidiaries	10,473	0.7	10,027	0.9
Advances paid on fixed assets	814	0.1	-	-
Fair value of hedging instruments	-	-	626	0.1
Non-current assets	963,498	65.6	954,876	88.0
Inventories	55,161	3.8	74,031	6.8
Trade and other receivables	415,454	28.3	50,475	4.7
Income tax receivable	375	-	-	-
Cash and cash equivalents	30,983	2.1	4,527	0.4
Fair value of hedging instruments	2,436	0.2	587	0.1
Current assets	504,409	34.4	129,620	12.0
TOTAL ASSETS	1,467,907	100.0	1,084,496	100.0

EQUITY AND LIABILITIES	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000	% of total
Equity				
Share capital	16,376	1.1	16,376	1.5
Share premium	289,806	19.7	289,806	26.7
Reserves	676,532	46.1	294,978	27.2
Retained earnings	92,188	6.3	83,631	7.7
Total equity	1,074,902	73.2	684,791	63.1
Liabilities				
Employee related benefits	7,773	0.5	8,754	0.8
Deferred tax liabilities	587	0.1	2,237	0.2
Fair value of hedging instruments	455	-	-	-
Non-current liabilities	8,815	0.6	10,991	1.0
Loans and borrowings	-	-	11,149	1.0
Income tax payable	-	-	470	0.1
Liabilities to related parties under debt securities	233,767	15.9	278,503	25.7
Fair value of hedging instruments	51	-	-	-
Trade and other payables	137,020	9.4	85,184	7.9
Employee related payble	13,352	0.9	13,408	1.2
Current liabilities	384,190	26.2	388,714	35.9
Total liabilities	393,005	26.8	399,705	36.9
TOTAL EQUITY AND LIABILITIES	1,467,907	100.0	1,084,496	100.0

2.1.2. Separate statement of profit and loss and other comprehensive income

	1.01.2015 - 31.12.2015 PLN '000	% of total sales	1.01.2014 - 31.12.2014 PLN '000	% of total sales
Revenue	648,951	100.0	652,518	100.0
Cost of sales	(550,055)	84.8	(555,211)	85.1
Profit on sales	*98,896*	*15.2*	*97,307*	*14.9*
Other operating income	10,350	1.6	6,604	1.0
Distribution expenses	(39,481)	6.1	(38,657)	5.9
General and administrative expenses	(28,068)	4.3	(23,765)	3.7
Other expenses	(3,848)	0.6	(2,191)	0.3
Results from operating activities	*37,849*	*5.8*	*39,298*	*6.0*
Financial income	47,182	7.3	39,342	6.0
Financial expenses	(9,752)	1.5	(12,545)	1.9
Net financing income	37,430	5.8	26,797	4.1
Profit before tax	*75,279*	*11.6*	*66,095*	*10.1*
Income tax expense	(6,173)	1.0	(5,546)	0.8
Net profit for the reporting period	*69,106*	*10.6*	*60,549*	*9.3*
OTHER COMPREHENSIVE INCOME				
Items that are or may be reclassified to profit or loss				
Cash flow hedges - effective portion of changes in fair value	2,374	0.4	1,213	0.2
Cash flow hedges - net change in fair value reclassified to current year profit or loss	(5,453)	0.8	-	-
Other comprehensive income for the period	***(3,079)***	***0.4***	***1,213***	***0.2***
Total comprehensive income	***66,027***	***10.2***	***61,762***	***9.5***
Basic and diluted earnings per share (PLN)	1.39	-	1.22	-

2.2. Selected financial ratios

		2015	2014	2013
1.	**Return on sales**			
	net profit for the period x 100% / revenue	10.6%	9.3%	12.9%
2.	**Return on equity**			
	net profit for the period x 100% / equity - net profit for the period	6.9%	9.7%	16.0%
3.	**Debtors' days**			
	average trade receivables (gross) x 365 days / revenue	19 days	18 days	29 days
4.	**Debt ratio**			
	liabilities x 100% / equity and liabilities	26.8%	37.0%	42.4%
5.	**Current ratio**			
	current assets / current liabilities	1.3	0.3	0.3

- 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 system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the separate financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified any material irregularities in the accounting system, which have not been corrected and that could have a material effect on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of its assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act, and reconciled and recorded the result thereof in the accounting records.

3.2. Notes to the separate financial statements

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

3.3. Report on the Company's activities

The report on the Company's activities includes, in all material respects, 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 separate financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner with power of attorney

18 March 2016

DIRECTOR'S REPORT ON THE COMPANY'S ACTIVITIES

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.

DIRECTORS' REPORT

ON THE OPERATIONS OF

PFLEIDERER GRAJEWO S.A.

for the period

1 January – 31 December 2015

1. FINANCIAL HIGHLIGHTS

	PLN '000		EUR '000	
	1 Jan– 31 Dec 2015	**1 Jan– 31 Dec 2014**	**1 Jan– 31 Dec 2015**	**1 Jan– 31 Dec 2014**
Revenue	648,951	652,518	155,073	155,758
Results from operating activity	37,849	39,298	9,044	9,381
Profit before tax	75,279	66,095	17,989	15,777
Net profit for the reporting period	69,106	60,549	16,514	14,453
Net cash provided by operating activities	81,828	69,301	19,554	16,542
Net cash provided by/ used in investing activities	20,757	(30,643)	4,960	(7,315)
Net cash used in financing activities	(76,129)	(38,957)	(18,192)	(9,299)
Total net cash flow	26,456	(299)	6,322	(71)
Basic earnings per share (in PLN/EUR)	1.39	1.22	0.33	0.29
Diluted earnings per share (in PLN/EUR)	1.39	1.22	0.33	0.29
Average PLN/EUR exchange rate			4.1848	4.1893

	PLN '000		EUR '000	
	31 Dec 2015	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**
Total assets	1,467,907	1,084,496	344,458	254,439
Liabilities	393,005	399,705	92,222	93,777
Non-current liabilities	8,815	10,991	2,068	2,579
Current liabilities	384,190	388,714	90,154	91,198
Equity	1,074,902	684,791	252,236	160,662
Share capital	16,376	16,376	3,843	3,842
Number of shares	49,624,000	49,624,000	49,624,000	49.624,000
Book value per share (in PLN/EUR)	21.66	13.80	5.08	3.24
PLN/EUR exchange rate as at the end of the reporting period			4.2615	4.2623

2. GENERAL INFORMATION

Pfleiderer Grajewo S.A. operates in Grajewo, a town located in the north-east part of Poland.

The Company, under its former name of Zakłady Płyt Wiórowych S.A. in Grajewo, was registered on 1 July 1994 by the Direct Court, Commercial Court of Łomża, in section B of the Commercial Register under entry No. 270. Subsequently, on 9 May 2001, it was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On 18 September 2002, the Management Board received the decision of the District Court of Białystok on entering the Company's new name: Pfleiderer Grajewo S.A., in the National Court Register. The Company's registered office is at 1 Wiórowa Street, Grajewo, Poland. Pfleiderer Grajewo S.A. shares are publicly traded. In accordance with the Polish Classification of Business Activities, the Parent Company's business is registered under No. 1621Z.

The business activity of Pfleiderer Grajewo S.A. is manufacture and veneering of wood and wood-based products, paper refine, domestic and abroad trade, rendering industrial services related to its core business, as well as other services based on resources held.

2.1. Pfleiderer Grajewo Management Board

The members of the Management Board of the Company as of 31 December 2015 are the following:

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

On 16 February 2015 the following changes took place based on decision of the Supervisory Board of Pfleiderer Grajewo S.A.:

- appointment of Mr. Michael Wolff to the Management Board for a position of President of Management Board;
- appointment of Mr. Gerd Schubert to the Management Board for a position of Chief Operating Officer;
- dismissal of Mr. Wojciech Gątkiewicz from a position of President of Management Board and appointment for a position of Member of Management Board - Chief Transformation Officer.

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

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

On 2 March 2016 the following changes took place based on decision of the Supervisory Board of Pfleiderer Grajewo S.A.:

- appointment of Mr. Richard Mayer to the Management Board for a position of Member of Management Board -Chief Financial Officer;
- dismissal of Mr. Rafał Karcz from a position of Chief Financial Officer and appointment for a position of Member of Management Board - Chief Administration Officer.

On 2 March 2016, Mr. Dariusz Tomaszewski submitted resignation from the position of Member of Management Board – Sales Director.

2.2. Supervisory Board

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

On 30 January 2015, Mr Paolo G. Antonietti and Mr. Michael F. Keppel were appointed to the position of Member of Pfleiderer Grajewo S.A. Supervisory Board.

On 16 February 2015, Supervisory Board appointed Mr. Paolo G. Antonietti to the position of Chairman of Pfleiderer Grajewo S.A. Supervisory Board and Mr. Michaela F. Keppel to the position of Vice – Chairman of Pfleiderer Grajewo S.A. Supervisory Board.

In accordance with a resolution of the Extraordinary General Meeting, dated 8 June 2015, Mr Christoph Mikulski and Mr Greg Hammerschmidt were appointed to the position of Member of the Pfleiderer Grajewo S.A. Supervisory Board.

On 30 June 2015, the Supervisory Board resolved to form an Audit Committee and a Nomination and Remuneration Committee at the Company's Supervisory Board.

On 19 January 2016, Richard Mayer, Gerd Hammerschmidt and Jochen Schapka resigned from their positions as the President and Members of the Supervisory Board, respectively. The aforementioned resignations were a consequence of the completion of reorganization of the Capital Group, as a result of which Pfleiderer Grajewo S.A. became the parent company for other companies in the group, in which the aforementioned members act as the members of management bodies or occupy other positions, which cannot be combined with positions of the members of the Supervisory Board of the Parent Company.

On 19 February 2016, Mr Zbigniew Prokopowicz , Mr Krzysztof Sędzikowski and Mr Stefan Wegener were appointed to the position of the Members of the Supervisory Board. On 2 march 2016 Mr Zbigiew Prokopowicz was appointed to the position of the Deputy Chairman of the Supervisory Board.

On 2 March 2016, the Supervisory Board resolved to form a Transformation Committee at the Company's Supervisory Board, with members: Mr Paolo G. Antonietti, Mr Zbigniew Prokopowicz and Mr Stefan Wegener.

As of the date of publication of the Report, the Supervisory Board included the following members:

1. Paolo G. Antonietti — Chairman of the Supervisory Board
2. Michael F. Keppel — Vice - Chairman of the Supervisory Board
3. Zbigniew Prokopowicz — Vice - Chairman of the Supervisory Board
4. Christoph Mikulski — Member of the Supervisory Board
5. Jan Woźniak — Member of the Supervisory Board
6. Krzysztof Sędzikowski — Member of the Supervisory Board
7. Stefan Wegener — Member of the Supervisory Board

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

The table below presents the structure of shareholders as of 31 December 2015 :

Shareholding structure as of 31 December 2015	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Pfleiderer Service GmbH	32,308,176	65.11%	32,308,176	65.11%
Aviva OFE Aviva BZ WBK	4,928,816	9.93%	4,928,816	9.93%
ING OFE	2,639,144	5.32%	2,639,144	5.32%
Other shareholders	9,747,864	19.64%	9,747,864	19.64%
Total	**49,624,000**	**100.00%**	**49,624,000**	**100.00%**

As for the date of this Report, the share capital of Pfleiderer Grajewo S.A. is PLN 21,351 thousand and is divided into 64,701,007 shares of PLN 0.33 at par value each. The total number of voting rights resulting from all shares issued by the Company is 64,701,007.

Shareholding structure as of 18 March 2016	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC*	16,772,896	25.92%	16,772,896	25.92%
Atlantic S.A.	16,374,497	25.31%	16,374,497	25.31%
Aviva OFE Aviva BZ WBK	4,928,816	7.62%	4,928,816	7.62%
ING OFE	2,639,144	4.08%	2,639,144	4.08%
Other shareholders	23,985,654	37.07%	23,985,654	37.07%
Total	**64,701,007**	**100.00%**	**64,701,007**	**100.00%**

* through subsidiaries; according to the notification of 4 February 2016,

Subsidiaries of Strategic Value Partners LLC directly holding shares of Pfleiderer Grajewo S.A.:				
Name of bussines:	**Number of shares**	**Ownership interest**	**Number of votes at GM**	**% of votes at GM**
Yellow Saphire S.a.r.I.	6,172,705	9.54%	6,172,705	9.54%
Brookside S.a.r.I. *	5,076,738	7.85%	5,076,738	7.85%
Field Point IV S.a.r.I.	3,079,810	4.76%	3,079,810	4.76%
Kings Forest S.a.r.I.	1,745,520	2.70%	1,745,520	2.70%
Field Point V S.a.r.I.	449,409	0.69%	449,409	0.69%
Field Point Acqusition S.a.r.I.	248,714	0.38%	248,714	0.38%
Total	**16,772,896**	**25.92%**	**16,772,896**	**25.92%**

* according to the notification of 4 February 2016.

4. External factors affecting the Company's business:

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

5. Internal factors affecting the Company's business:

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

6. Plans and development prospects for 2016

In 2016, the Pfleiderer Grajewo Management Board will in particular focus on:

- Completion of the transaction concerning the increase of the share capital of the Company through the issue of new shares and registration of the increased capital.
- Completion of the transaction of purchase of all Pfleiderer GmbH shares and reduction of debt of the new Group, in which Pfleiderer Grajewo S.A. shall be the Parent Company.
- Continuation of the One Pfleiderer concept, aiming at integrating the organizational structures between the eastern and western segment of the Pfleiderer Group, unifying the management processes, reducing costs, introducing a unified SAP system and developing a shared development strategy.
- Continuation of the long-term investment programme to upgrade the Company's plants to better align its production capacities with market needs and generate cost efficiencies.
- Adapting the product offering to meet market needs – not only in terms of quality, but also design – through continued collaboration with designers and active presence at trade events for interior designers (promotion of new designs for finished furniture products).
- Expansion onto European markets.
- Promotion of the Pfleiderer brand as a modern and continuously developing organisation, which implements state-of-the-art technologies and respects the natural environment.

7. Initiatives carried out by Pfleiderer Grajewo S.A. in 2015:

- Commencement and successful completion of issuance of new shares. Development of a new organizational structure and strategy and operational concept for the enlarged Group. Establishment of new goals and completion terms.
- Activities geared towards enabling effective expansion on the interior design market.
- Enhancement of efficiency and production processes through tight cost control.
- Improving the quality of products and services.
- Analysis of production and sales volumes and adjusting them to current market demand.
- Optimisation efforts designed to improve the Company's operating efficiency.
- Securing of wood and chemicals supplies.
- Improvement of the Company's working capital.
- Promotion of the Company's image as a financially stable and reliable business partner.
- Strengthening of Pfleiderer's market position by promoting the Pfleiderer brand and vision.
- Market launch of a new decor collection.
- Analysis of the Company's financial standing, current sales strategy and organisation of the production and distribution processes in order to improve efficiency and identify areas in need of restructuring.
- Expansion and consolidation of the dealership network, creation of standardised visual identification for Pfleiderer Partner sale outlets.

8. Financial standing of Pfleiderer Grajewo S.A.

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

	31 Dec 2015	31 Dec 2014
	PLN '000	PLN '000
Total equity	1,074,902	684,791
Non-current liabilities	8,815	10,991
Long-term capital (total equity + non-current liabilities)	1,083,717	695,782
Current liabilities	384,190	388,714

In 2015, Pfleiderer Grajewo S.A. financed its operations mainly with own funds and, to a certain extent, with bank borrowings and issues of notes acquired by Pfleiderer Prospan S.A.

As at 31 December 2015, the Company's debt outstanding under short-term notes in issue was PLN 233,767 thousand, whereas debt under bank borrowings amounted to PLN 0 thousand.

The Pfleiderer Grajewo Group also supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. z o.o. This form of financing was available to Pfleiderer Grajewo S.A. and was limited to PLN 100,000 thousand. The factoring agreements with PEKAO Factoring Sp. z o.o. is at least one year. The agreement is automatically prolonged for the next year if neither party notifies the other party of its intention not to extend an agreement, with the proviso that such notice may be sent no later than two months before the expiry of a given agreement.

9. Workforce and remuneration at Pfleiderer Grajewo S.A.

As at 31 December 2015, the Company employed 584 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board. The Company's employment structure as at the end of the reporting period was as follows:

	31 Dec 2015	31 Dec 2014
Employees		
- direct production employees	269	270
- indirect production employees	128	132
- administration, office and other employees	185	165
- management staff	2	3
Total	**584**	**570**

The headcount at Pfleiderer Grajewo S.A. has remained relatively stable for a long time.

Remuneration paid to the members of the Pfleiderer Grajewo Management Board, including bonuses, in the period 1 January – 31 December 2015:

1.	President of the Management Board	Michael Wolff	PLN 845 thousand.
2.	Member of the Management Board	Rafał Karcz	PLN 570 thousand.
3.	Member of the Management Board	Gerd Schubert	PLN 549 thousand.
4.	Member of the Management Board	Wojciech Gątkiewicz	PLN 1,061 thousand.
5.	Member of the Management Board	Dariusz Tomaszewski	PLN 595 thousand.

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

1.	President of the Management Board	Wojciech Gątkiewicz	PLN 1,054 thousand.
2.	Member of the Management Board	Rafał Karcz	PLN 560 thousand.
3.	Member of the Management Board	Dariusz Tomaszewski	PLN 601 thousand.

In addition, during the reporting period Rafał Karcz and Dariusz Tomaszewski, acted as the management of a subsidiary Pfleiderer MDF Sp. z o.o without receiving any remuneration.

The managerial contract between Pfleiderer Grajewo S.A. and Wojciech Gątkiewicz, a member of the Management Board, provides, that the contract may be terminated by either party not earlier than on 30 June 2016, subject to 12 months' notice.

The managerial contract of Rafał Karcz may be terminated with 12 months' notice. Rafał Karcz is entitled to receive a one-off termination payment equal to one month of his remuneration if the contract is terminated with notice.

Additionally, the managerial contract between the Pfleiderer Prospan S.A. and Dariusz Tomaszewski contains a provision entitling Dariusz Tomaszewski to receive a one-off termination payment equal to one month of his remuneration if the contract is terminated with notice.

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

1.	Chairman of the Supervisory Board	Paolo G. Antonietti	PLN 192 thousand.
2.	Vice - Chairman of the Supervisory Board	Michael F. Keppel	PLN 96 thousand.
3.	Member of the Supervisory Board	Jochen Schapka	PLN 105 thousand.
4.	Member of the Supervisory Board	Richard Mayer	PLN 105 thousand.
5.	Member of the Supervisory Board	Jan Woźniak	PLN 105 thousand.
6.	Member of the Supervisory Board	Christoph Mikulski	PLN 59 thousand.
7.	Member of the Supervisory Board	Gerd Hammerschmidt	PLN 59 thousand.

As at 31 December 2015, the members of the Management and Supervisory Boards of Pfleiderer Grajewo S.A. had no outstanding loan-related debt towards the Company.

As at 31 December 2015, Mr Dariusz Tomaszewski, Management Board Member, had outstanding debt of PLN 26 thousand under a loan from subsidiary Pfleiderer Prospan S.A. This liability is related to a loan taken out from the Privatisation Fund in 1997 to finance the acquisition of shares in Pfleiderer Prospan S.A.

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

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

- Member of the Management Board Wojciech Gątkiewicz - 5,400 Company shares.
- Member of the Management Board Rafał Karcz - 3,472 Company shares.
- Member of the Management Board Dariusz Tomaszewski (until 2 March 2016) - 4,108 Company shares.

As at the date of this Report, the Supervisory Board's members held the following number of Pfleiderer Grajewo shares:

- Member of the Supervisory Board Paolo G. Antonietti - 4,000 Company shares.

The par value of each share is PLN 0.33.

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

11. Production volume and structure

In 2015 and 2014, the production volumes of main product groups were as follows:

		1 Jan – 31 Dec 2015	**1 Jan – 31 Dec 2014**
Gross production of raw chipboards *(finished product; semi- product for the of laminated chipboards)*	thous. cubic m	638.1	613.5
Production of laminated chipboards	thous sqm	14,808	16,156.4

Production of raw chipboard increased by 4.0%, while production of laminated chipboard decreased by 8.3% in comparison to 2014.

12. Sales volume and structure

Revenue reported by the Company in 2015 was PLN 648,951 thousand and decreased by 0.5% when compared to 2014.

Revenue by region was as follows:

	1 Jan – 31 Dec 2015	**1 Jan – 31 Dec 2014**
Domestic sales	**490,408**	**463,154**
- revenue from sale of products	357,634	333,208
- revenue from sale of merchandise and materials	100,930	101,808
- revenue from rendering of services	31,844	28,138
Foreign sales	**158,543**	**189,364**
- revenue from sale of products	146,727	177,076
- revenue from sale of merchandise and materials	11,583	9,566
- revenue from rendering of services	233	2,722
Total:	**648,951**	**652,518**

Revenue by product group was as follows:

	1 Jan – 31 Dec 2015		1 Jan – 31 Dec 2014	
	value	% share	value	% share
Revenue from sale of products	**504,361**	**77.72%**	**510,284**	**78.20%**
Chipboards	397,312	61.22%	397,652	60.94%
Finish foil (foil, edge banding, edge foil)	45,337	6.99%	56,265	8.62%
Other (fibre mats, packaging)	61,712	9.51%	56,367	8.64%
Revenue from sale of merchandise and materials	**112,513**	**17.34%**	**111,374**	**17.07%**
Materials	97,816	15.07%	99,836	15.30%
Merchandise	14,697	2.27%	11,538	1.77%
Revenue from rendering of services	**32,077**	**4.94%**	**30,860**	**4.73%**
Total:	**648,951**	**100.00%**	**652,518**	**100.00%**

Sales volumes of Pfleiderer Grajewo S.A. key products:

Sales by product group		**1 Jan – 31 Dec 2015**	**1 Jan – 31 Dec 2014**
Raw chipboards	thous cubic m	335.3	294.0
Laminated boards	thous sqm	14,943.3	15,650.8

The furniture industry continues to be the most important sector for Pfleiderer Grajewo S.A. as it accounts for 95% of total sales. The Company 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 Company's long-term sales strategy is based on three key distribution channels:
- sales to industrial customers,
- sales to the Pfleiderer Partner dealership network (PP network),
- export sales.

Company's sales by distribution channels in 2014–2015

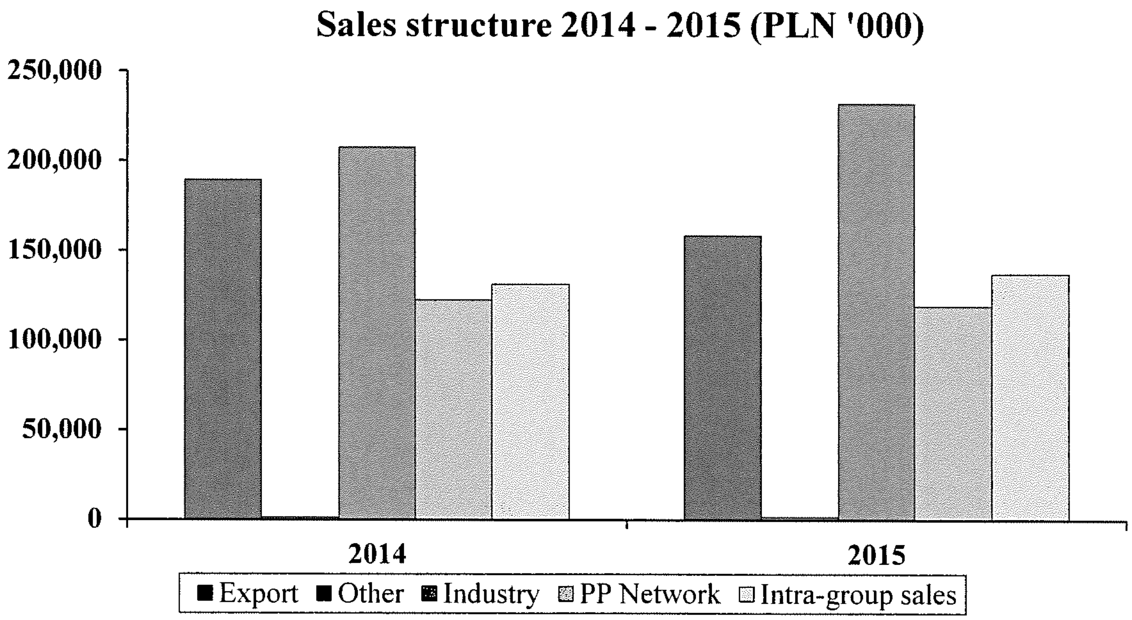

Figure: Sales structure in 2014–2015 (PLN '000)

The Company's key distribution channels remain as follows:

- export sales,
- direct sales to large and medium-sized furniture producers, and
- sales to the Pfleiderer Partner network.

In 2015, direct sales to large and medium-sized furniture manufacturers increased by 11.8% in comparison to 2014. Exports sales decreased by 16.3% on 2015 when comparing to 2014. Sales to the Pfleiderer Partner network decreased a 2.8%. Intra-group sales to other companies of the Pfleiderer Grajewo Group in Poland grew by 4.5%.

The shares of individual distribution channels in total sales in 2015 were as follows:

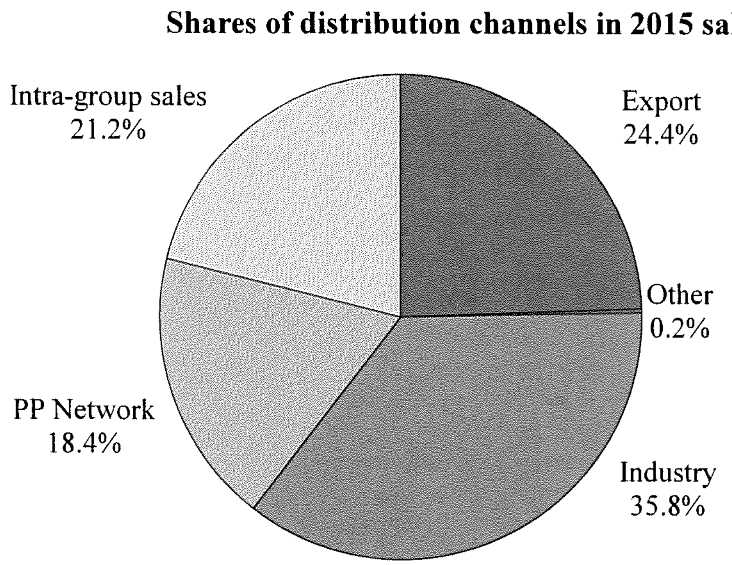

Figure: Sales by distribution channels in 2015 (%)

When comparing to prior year's figures, the share of export sales fell from 28.7% to 24.4%. The share of direct sales to furniture manufacturers increased from 31.1% to 35.8%, the share of sales to the Pfleiderer Partner network remained at level of 18.4% and that of intra-group sales grew slightly from 20.1% to 21.2%.

13. Procurement

Wood, chemicals used in chipboard and veneer manufacturing and decorative papers are the main raw materials used in production at Pfleiderer Grajewo S.A.

In 2015, the Company purchased wood from traditional sources, located in close proximity to the plants.

Group is not dependent on a single supplier. The value of transactions did not exceed 10% of the total purchases with any of suppliers in 2015.

14. Economic and financial data

The cost of raw materials and consumables continues to be the largest component of the Company's cost structure, representing 57% of all expenses by kind. This position includes consumption of raw materials used directly in production, such as wood, resin for chipboard production, other chemicals and decorative papers.

With a 9% share each, Employee benefits expense and Services are the second largest component in the Company's cost structure. The high share of services in the overall cost structure results from the fact, that certain auxiliary functions are outsourced and certain types of services are purchased from external companies. Moreover, there has been a gradual increase of transport costs related to product sales and materials procurement.

In 2015, there was also an increase in depreciation and amortization which represent 4% of all expenses by kind (in 2014 3%). It results primarily from the completion of investments in mid-2015 initiated in previous years and, thus, increasing additions to fixed assets and bringing them into use.

There were no significant changes in other groups of costs by kind in comparison to 2014.

A 22.3% decrease in financial expenses in the reporting period was attributable mainly to a debt repayment.

In 2015 and 2014, the Company earned the following sales margins:

	2015	2014
Gross margin Profit before tax / Revenue	11.60%	10.13 %
Net margin Net profit / Revenue	10.65%	9.28 %

Net and gross margins increased in 2015 when comparing to 2014 as a consequence of generating of higher profit.

15. Use of bank borrowings

15.1. Bank loan agreements

In June 2013, Pfleiderer Grajewo S.A. and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into credit facility agreements which currently continue in force. On 14 October 2015, one of such agreements, concluded with the Bank Ochrony Środowiska, was terminated by mutual agreement of the parties. Other agreements are still in force. As at 31 December 2015, the total credit limit available under the facilities with three banks amounts to PLN 260,000 thousand and ensures the financial liquidity of the Company.

- **Credit facility agreement with Bank Millennium S.A.**

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

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

Moreover, Silekol Sp. z o.o., a subsidiary of the Company, entered into an overdraft facility agreement with Bank Millennium S.A., for up to PLN 10,000 thousand.

Total liabilities of all the three borrowers under the four credit facility agreements with Bank Millennium S.A. may not exceed PLN 100,000 thousand. The multi-purpose credit facility agreement provides for the repayment of the entire loan after five years from execution of the agreement, while the overdrafts are to be repaid within three years. The facilities are used to finance the borrowers' day-to-day operations.

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

- **Credit facility agreement with Alior Bank S.A.**

On 26 June 2013, the Company entered into a PLN 75,000 thousand credit facility agreement with Alior Bank S.A. The facility, used to finance the Company's day-to-day operations, is to be repaid in full within five years from the agreement execution date.

At the same time, the Company and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into an overdraft facility agreement with Alior Bank S.A., for up to PLN 25,000 thousand, under which the bank granted to the Company an overdraft limit of PLN 25,000 thousand and separate sub-limits of PLN 10,000 thousand to Pfleiderer Prospan S.A. and Silekol Sp. z o.o. each.

The facility, used to finance the borrowers' day-to-day operations of the borrowers, is repayable within three years from the agreement execution date. Total liabilities of all the three borrowers under the two credit facility agreements with Alior Bank S.A. may not exceed PLN 100,000 thousand.

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

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

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

At the same time, the Company and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into an overdraft facility agreement with Bank Zachodni WBK S.A., for up to PLN 15,000 thousand (a joint overdraft limit for all three borrowers).

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

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

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

On 27 June 2013, the Company entered into a PLN 40,000 thousand multi-purpose credit facility agreement with Bank Ochrony Środowiska S.A. to finance the Company's day-to-day operations. The facility is to be repaid within five years from the date of execution of the agreement. On 14 October 2015 dissolved the contract by mutual agreement with Bank Ochrony Środowiska.

As at 31 December 2015, the Company's debt under the bank borrowings amounted to PLN 0 thousand.

- **Revolving Faility Agreement**

On 5 October 2015, Pfleiderer Grajewo S.A. and other companies from the Pfleiderer Concern:

Pfleiderer GmbH, Pfleiderer Services GmbH, Pfleiderer Holzwerkstoffe GmbH,
Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH,
Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH, Jura Spedition GmbH,
Pfleiderer Vermögensverwaltung GmbH & Co. KG,
Pfleiderer Prospan S.A. Pfleiderer MDF Sp. z o.o. Silekol Sp. z o.o.

concluded an Agreement amending the superior renewable credit agreement dated 4 July 2014, concluded by companies from the Western Segment of the Pfleiderer Concern. This agreement is referred to as the "Revolving Facility Agreement" and was concluded with the mandated lead arrangers, including:

Commerzbank Aktiengesellschaft,	Deutsche Bank AG Filiale Deutschlandgeschäft,
KFW,	BNP Paribas S.A. Niederlassung Deutschland,
Alior Bank S.A	Powszechna Kasa Oszczędności Bank Polski S.A,
Bank Zachodni WBK S.A	Bank Millennium S.A

and

Commerzbank International S.A.	the "Agent" as the credit agent
Commerzbank Aktiengesellschaft	the "Security agent" as the security agent
Filiale Luxemburg	the "Security agent" as the security agent

All of the amendments to the Revolving Facility Agreement were conditionally adopted and entered into force on 19 January 2016 with the completion of the Pfleiderer Grajewo S.A. Capital Group reorganization process.

On 19 January 2016, the Pfleiderer Grajewo S.A. and its subsidiaries: Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. became the debtors under a Revolving Facility Agreement (next to Pfleiderer GmbH and Pfleiderer Holzwerkstoffe GmbH). Furthermore, after fulfilling specific conditions, Pfleiderer Grajewo S.A. can request that other subsidiaries to join the Revolving Facility Agreement as additional debtors.

Pursuant to the Revolving Facility Agreement, an additional tranche of PLN 200,000 thousand was added to the primary sum of the renewable credit of EUR 60,000 thousand. Credits lines will be available for use in the form of payments in EUR and PLN and in the form of Ancillary Facilities (as defined below).

The agreement termination date and the full repayment date was set for 30 April 2019.

The creditor or its affiliates can make available to the debtor all or a part of the unused funds under the Revolving Facility Agreement through ancillary facilities (such as credits on the current account, guarantees, bonds, letters of credit, short-term credits and other credits and solutions found necessary due to the activity of Pfleiderer Grajewo S.A. and its subsidiaries, which were agreed on by Pfleiderer Grajewo S.A. and the proper creditor or its affiliate).

Total limits were set to EUR 20,000 thousand in the case of tranches in Euro and PLN 120,000 thousand in the case of tranches in PLN.

Any funds paid out under the Revolving Facility Agreement will be devoted to the financing of corporate needs and the working capital of the Pfleiderer Grajewo Group, whereas they must not be used for the buyout, repayment, early repayment, purchase or cancellation of Senior Secured Notes issued by Pfleiderer GmbH on 7 July 2014.

Liabilities under borrowings from related parties

As at 31 December 2015 and 31 December 2014, the Company did not carry any borrowings from related parties.

16. Investments and overhauls

To ensure proper functioning on the market and fulfilling of increasing customer demand, the Company must maintain its plant and equipment in the best technical and technological condition. In 2015, the Company spent PLN 31,325 thousand on repairs and maintenance of plant and equipment (including capitalised expenditure), the plan was PLN 26,855 thousand. The Company's efforts in this respect result in gradual improvement of product quality and higher production capacity.

To maintain appropriate production volumes and consistently improve product quality, the Company incurred capital expenditures, which in 2015 mainly concerned the increase of productivity. The largest projects were:

Implementation of a shared IT system	8,158 thousand
Upgrade of wood waste collection line / stage III	3,466 thousand
KT press / buyout from leasing	2,020 thousand
Capitalized costs of major overhaul of fixed assets	5,611 thousand
Other investment projects below PLN 1m each	12,070 thousand

In 2016, planned investments are PLN 24,450 thousand. The investment package includes, among others, upgrading projects aiming at reducing costs, optimizing the production process and continuing the implementation of new, unified IT systems. The largest of these projects are:

Continuation of implementation of a shared IT system	6,000 thousand
Assembly of a fire extinguishing tank in front of the dry shaving sorting plant	2,190 thousand
Continuation of visualization of sales points	1,681 thousand
Modernization of filters in drying plants	1,200 thousand

17. Marketing activities in 2015

17.1. Marketing objectives:

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

17.2. Marketing activities on the furniture and interior design markets:

17.2.1. Product policy:

- Market launch of new collection of decors „ Materials we love. Concept by Zięta &Kuchciński"
- Refreshment of varnished HDF panels
- Continued development of new products while reducing the number of slow-moving products; active management of the product portfolio.

17.2.2. Communication policy:

- Continuation of the PFL/Pfleiderer brand communication project.
- Enhanced internal and external visual presence of the Pfleiderer Partner sales network domestically and in selected exports markets.
- Organisation of training courses for the sales force employed by the Pfleiderer Partner network.
- Product displays in kitchen studios, and furniture companies in regions.
- Support of advertising activities of the Pfleiderer Partner's companies in the country and abroad (regional advertising campaigns, participation in loyalty programs).
- Active promotion of the Pfleiderer brand and the "Materials we love. Concept by Zięta&Kuchciński" collection at the FURNITURE Expo in Poznań and at the Arena Design.
- Participation in regional fairs and events organised by the Pfleiderer Partner network in Poland and abroad; (domestic fairs, organization of „Open Doors").
- Implementation of a sales support program for kitchen countertops, targeting carpentry and furniture companies supplied by Pfleiderer Partner.
- Activation of advertising and PR initiatives dedicated to kitchen countertops in the press and online media, positioning of the brand and its product categories.
- Organisation of meetings with key customers.
- Active promotion of the Pfleiderer brand and products in social media.
- Company participation in events dedicated to architects and designers, in cooperation with Virtus and SARP (Association of Polish Architects).
- Active PR initiatives and advertising, focused primarily on the presentation of inspiring interior design solutions for residential and public buildings.
- Cooperation with higher education institutions: the University of Arts of Poznań.

17.3. Marketing activities on the construction market:

17.3.1. Product policy:

- Marketing of the Living Board panel.

17.3.2. Communication policy:

- Active promotion of the MFP construction panel in the segment of contractors and investors, and the Castorama store chain.
- Participation in regional construction fairs, such as those organised by the PSB Group.
- Television campaign of the MFP construction panel.
- Implementation of a sales support program for the MFP construction panel.
- Organization of events and a cycle of training sessions in the regions, dedicated to commercial and contracting companies, devoted to the Pfleiderer construction products.
- Continuation of activities designed to enhance brand's visual presence at retail outlets.

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

18. Material related-party transactions in 2015

For the information regarding related-party transactions as at 31 December 2015 and for the period from 1 January to 31 December 2015, see Note 31 in the notes to the financial statements of the Pfleiderer Grajewo S.A.

In the period from 1 January to 31 December 2015, all related-party transactions were executed on an arm's length basis.

19. Management of Pfleiderer Grajewo S.A.'s financial resources in 2015

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

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

In 2015, Pfleiderer Grajewo S.A. and subsidiaries financed all relevant projects by the use in the first place surplus generated from operating activities and secondly using bank loans, factoring and bond issues (internal financing where the issuer is Pfleiderer Grajewo S.A. and investor is Pfleiderer Prospan S.A.).

The Company maintains full payment capability and high creditworthiness in the assessment of strategic lenders. Therefore, in the assessment of the Management Board, even taking into account worsening in the macroeconomic situation, there are no threats, that may result in worsening or loss of financial liquidity.

20. Financial instruments

20.1. Derivatives

Forward and swap agreements are forward foreign currency transactions conducted at a predetermined exchange rate.

Forward contracts were executed in order to hedge currency risk related to business transactions (sale of products, purchase of raw materials, capital expenditure in foreign currencies) and to hedge the transaction concerning purchase of shares in Pfleiderer GmbH.

The Company applies hedge accounting, and therefore the effective portion of gains or losses on fair value measurement of forward hedging instruments is recognised under other comprehensive income and presented separately as 'cash flow hedges' under equity. Gains or losses previously recognised in other comprehensive income are transferred to the current period's profit or loss in the same period and the same item in which hedged cash flows are recognised in the statement of comprehensive income. The ineffective portion of changes in fair value of a derivative instrument is recognised immediately in the current period's profit or loss.

In 2015, the Parent executed 29 forward contracts for the total amount of EUR 55,780 thousand. As at 31 December 2015, Pfleiderer Grajewo S.A. held 29 open EUR/PLN FX forward contracts for the sale of EUR 56,800 thousand with settlement dates falling between 28 January 2016 and 28 December 2017. As at the reporting date, these transactions were valued at PLN 1,981 thousand (fair value – level 2). Additionally, Pfleiderer Grajewo S.A., as at 31 December 2015, held one open FX forward contract for the purchase of a total of EUR 509,219 thousand with settlement dates falling at 27 January 2016. This transaction secured the risk of Pfleiderer Grajewo S.A to payment for purchase price for the Pfleiderer GmbH's shares. As at the reporting date, the valuation related to that transaction was negative at PLN 51 thousand (fair value – level 2).

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

20.2. Notes; use of proceeds until the date of this Report

The commercial paper programme, carried out pursuant to an agreement of 22 July 2003 with PEKAO S.A., consists of issuance of short-term notes. The notes are issued in accordance with the Polish Bonds Act of 29 June 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form.

The notes issued by Pfleiderer Grajewo S.A., maturing in up to one year, are acquired by Pfleiderer Prospan S.A. through Bank PEKAO S.A. Thanks to this arrangement, Pfleiderer Grajewo S.A. does not use higher-rate bank loans and Pfleiderer Prospan S.A. has deposits bearing higher interest than such instruments as treasury bills. The Bank's fee is the cost incurred by the Company in connection with the issue. The notes are a discount instrument – they are issued at a discount to their nominal value and repurchased by the issuer at nominal value.

As at 31 December 2015, the Company's debt under issued notes totaled PLN 233,767 thousand. The notes are used to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

After 31 December 2015, Pfleiderer Grajewo S.A. carried out 11 issuances of commercial papers in the form of short-term notes with a view to optimising the Group's financial liquidity management, reducing the external debt and financing day-to-day operations.

Use of issuance

The notes are used to optimise cash management within the Company, reduce external debt and finance day-to-day operations.

20.3. Loans

Loans advanced:

Pfleiderer Grajewo S.A. executes new investment projects through its subsidiaries. The projects are financed partially with credit facilities granted by banks directly to the subsidiaries and partially with loans granted by Pfleiderer Grajewo S.A.

As at 31 December 2015, the Company has loan receivables of PLN 10,473 thousand granted to subsidiary Pfleiderer MDF Sp. z o.o..

The table below presents detailed information on loans granted by the Company (all amounts in PLN thousand):

Subsidiary:	**1 Jan –**	**Accrued interest**	**31 Dec 2015**
Pfleiderer MDF Sp. z o.o.	10,027	446	10,473
Total	**10,027**	**446**	**10,473**

Interest on loan are accrued on a monthly basis and presented as financial income. The loan granted to Pfleiderer MDF Sp. z o.o. is denominated in PLN and bear interests at 1M WIBOR rate plus margin.

20.4. Sureties

As at 31 December 2015, the Company issued the following sureties:

a) surety of EUR 1,115 thousand (PLN 4,752 thousand) issued to Pfleiderer MDF Sp. z o.o. in connection with a credit facility granted to Pfleiderer MDF Sp. z o.o. by PKO BP S.A. As at 31 December 2015, Pfleiderer MDF Sp. z o.o.'s liability under the facility was PLN 62,626 thousand. The surety expires on 15 July 2019,

b) letter of credit of EUR 1,669 thousand (PLN 7,108 thousand) issued to Pfleiderer Prospan S.A. in connection with a contract for the construction of the kitchen worktop laminating line. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability towards Robert Burkle GmbH was PLN 0 thousand. The letter of credit expires on 25 July 2016,

c) surety of PLN 15,000 thousand issued to Pfleiderer Prospan S.A. and Silekol Sp. z o.o. in connection with a credit facility granted to Pfleiderer Grajewo S.A. and its subsidiaries, Pfleiderer Prospan S.A. and Silekol Sp. z o.o., by BZ WBK S.A. As at 31 December 2015, the companies' liability under the facility was PLN 0. The surety expires on 25 June 2016,

d) surety of PLN 11,500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility granted to Pfleiderer Prospan S.A. by Alior Bank S.A. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0. The surety expires on 25 June 2016,

e) surety of PLN 11,500 thousand issued to Silekol Sp. z o.o. in connection with a credit facility granted to Silekol Sp. z o.o. by Alior Bank S.A. As at 31 December 2015, Silekol Sp. z o.o.'s liability under the facility was PLN 0. The surety expires on 25 July 2016,

f) surety of PLN 11,500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility granted to Pfleiderer Prospan S.A. by Millennium Bank S.A. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0. The surety expires on 25 July 2016,

g) surety of PLN 11,500 thousand issued to Silekol Sp. z o.o. in connection with a credit facility granted to Silekol Sp. z o.o. by Millennium Bank S.A. As at 31 December 2015, Silekol Sp. z o.o.'s liability under the facility was PLN 0. The surety expires on 25 July 2016.

20.5. Company's assets used as security

Certain documents and agreements were signed in order to secure the Banks' receivables under the credit facility agreements concluded on 26 and 27 June 2013 by the Company and its subsidiaries (Pfleiderer Prospan S.A. and Silekol Sp. z o.o.). The documents and agreements concerned in particular creating security on the Company's assets. For details, see Section 14.1 of this Report.

20.6. Guarantees and securities related to Revolving Facility Agreement dated 5 October 2015

Liabilities under the Revolving Facility Agreement are secured in the same way as the Bonds issued by Pfleiderer GmbH on 7 July 2014. This means that the said liabilities are currently secured with first-order bond on:

(i) the share capital issued (or shares, respectively) of the Western Segment Guarantors;
(ii) certain receivables of the Western Segment Guarantors, including internal group receivables;
(iii) certain real properties;
(iv) certain intellectual property assets;
(v) certain bank accounts;
(vi) certain fixed assets and current assets.

Furthermore, pursuant to the amending agreement, the Revolving Facility Agreement shall be also secured first-order by:

(i) financial and registered pledges on shares/stocks of the Eastern Segment Guarantors (with the exception of Pfleiderer Grajewo S.A.);
(ii) letter of attorney, authorizing the exercise of corporate rights in the pledged shares/stocks of the Eastern Segment Guarantors (with the exception of the Company);
(iii) financial and registered pledges on liabilities under bank account agreements of the Eastern Segment Guarantors;
(iv) letter of attorney to block and pay out any of funds from the bank accounts of the Eastern Segment Guarantors;
(v) registered pledges on the assets (concerning the entire activity, including trademarks) of the Eastern Segment Guarantors;
(vi) wire transfers to secure liabilities under insurance policies and major contracts (including internal group loans) of the Eastern Segment Guarantors;
(vii) statements on the establishment of mortgage of the Eastern Segment Guarantors;
(viii) statements on the submission to enforcement of the Eastern Segment Guarantors.

On 21 October 2015, Pfleiderer Grajewo S.A. and its subsidiaries, i.e. Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. concluded agreements and performed activities related to the establishment of proper securities. The securities established secure all and any liabilities under parallel debt, payable to Commerzbank Aktiengesellschaft, Filiale Luxemburg, as the security agent under the creditor agreement, in amounts equal, at every time, the sums due to the then secured entities by the Eastern Segment Guarantors under pertinent debentures (which assumes the main sum of EUR 321,700 thousand in Bonds issued by Pfleiderer GmbH on 7 July 2014, the main sum of up to EUR 60,000 thousand and up to PLN 200,000 thousand under the renewable credit agreement, plus interest, commissions and hedging).

The Eastern Segment Guarantors and the Security Agent concluded and executed agreements and other documents enforcing the following Securities:

(i) financial and registered pledges on the shares/stocks of, respectively, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. belonging to Pfleiderer Grajewo S.A. (representing 100% of the share capital and providing 100% voting rights at the general meeting of shareholders of each of the companies);
(ii) letter of attorney to exercise corporate laws under the pledged shares/stocks, respectively, of Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. oraz Silekol Sp. z o.o. belonging to Pfleiderer Grajewo S.A.;
(iii) financial and registered pledges on liabilities under bank account agreements of the Eastern Segment Guarantors;
(iv) letter of attorney to block and pay out any of funds from the bank accounts of the Eastern Segment Guarantors;
(v) registered pledges on the assets (concerning the entire activity, including trademarks) of the Eastern Segment Guarantors;

(vi) wire transfers to secure liabilities under insurance policies and major contracts (including internal group loans) of the Eastern Segment Guarantors; and

(vii) statements on the establishment of mortgage on the following real properties:

a. land, situated in Kolonia Konopki and Grajewo, Grajewo municipality, land and mortgage register number LM1G/00021237/8; land, situated in Grajewo, Grajewo municipality, land and mortgage register number LM1G/00023663/7; land, situated in Grajewo, Grajewo municipality, land and mortgage register number LM1G/00024415/1; land, situated in Grajewo, Grajewo municipality, land and mortgage register number LM1G/00016833/8 and land, situated in Rajgród, Rajgród municipality, land and mortgage register number LM1G/00015686/5, to which the Company holds the right of perpetual usufruct;
b. land, situated in Wieruszów, Pieczyska and Klatka, Wieruszów municipality, land and mortgage register number SR1W/00085678/9 and land, situated in Klatka, Wieruszów municipality, land and mortgage register number SR1W/00087135/5, to which Pfleiderer Prospan S.A. holds the right of perpetual usufruct;
c. land, situated in Klatka, Wieruszów municipality, land and mortgage register number SR1W/00088780/8; land, situated in Wieruszów, Wieruszów municipality, land and mortgage register number SR1W/00083375/1 and land, situated in Wieruszów, Wieruszów municipality, land and mortgage register number SR1W/00085575/7, owned by Pfleiderer Prospan S.A..;
d. land, situated in Grajewo, Grajewo municipality, land and mortgage register number LM1G/00034414/7, to which Pfleiderer MDF Sp. z o.o. holds the rights of perpetual usufruct; and e) land, situated in Kędzierzyn-Koźle, Kędzierzyn-Koźle municipality, land and mortgage register number OP1K/00054262/8, to which Silekol Sp. z o.o. holds the right of perpetual usufruct.

The securities have been established for the Security Agent.

Furthermore, on 19 January 2016, Pfleiderer Grajewo S.A, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. (hereinafter collectively the "Eastern Segment Guarantors") concluded a guarantee agreement ("Guarantee Agreement") for liabilities from insubordinate secured bonds of 7.875%, issued by Pfleiderer GmbH on 7 July 2014, and of enforceability date due in 2019, in a total amount of EUR 321,684 thousand ("Bonds"). The Guarantee Agreement was concluded by and between the Eastern Segment Guarantors, Commerzbank Aktiengesellschaft, Filiale Luxemburg (the "Security Agent") and the representatives of Bond holders.

Up to this point, Bonds had been secured, among others, primarily by certain Pfleiderer GmbH subsidiaries ("Western Segment Guarantors"). Under the Guarantee Agreement, the Bonds will be additionally secured with guarantees granted by the Eastern Segment Guarantors.

Under the Guarantee Agreement, the Guarantors (subject to specific limitations) shall jointly and severally, unconditionally and irrevocably guarantee to the Security Agent acting on behalf of the Bond holders, on a first-order basis, to perform due and timely repayment of the nominal fee, including interest, costs, expenses and other sums payable by Pfleiderer GmbH in connection with the Bonds. Neither the period of the Guarantees nor the Guarantee fee have been specified in the Guarantee Agreement.

20.7. Shares held by Pfleiderer Grajewo S.A.

For detailed information on shareholdings, see note 16 to the annual separate financial statements (Investments in subsidiaries).

21. Financial risks related to the Company's operations

The Company manages all types of financial risk described below, which may have a significant effect on its operations in the future. In its risk management process, the Company focuses on the following risk types:

- credit risk,
- currency risk,
- liquidity risk,
- interest rate risk.

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

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

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

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

21.1. Credit risk

Transactions which expose the Pfleiderer Grajewo S.A. 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 Company operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and full factoring. In 2015, over 90% of the Company's trade receivables were secured in this way. In the event of insolvency of customers who have insurance coverage, compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

21.2. Interest rate risk

The Company 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 Company does not hedge the interest rate risk. The Company monitors the level of interest costs in relation to EBITDA.

21.3. Currency risk

As at 31 December 2015, Pfleiderer Grajewo S.A. was not exposed to currency risk related to foreign currency bank borrowings or other debt instruments.

Foreign currency transactions relate both to purchases of raw materials and sale of goods. Therefore, in the event of any exchange rate fluctuations the resulting foreign exchange gains and losses are partly offset. Furthermore, the Company 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 Company monitors its currency risk exposure in terms of cash flows rather than profit or loss.

In 2015, the Pfleiderer Grajewo S.A. entered into a number of EUR/PLN forward contracts to hedge against currency risk related to planned trade transactions.

Details on transactions term were described in Section 19.1. of this Directors' Report.

21.4. The risk of changes in the prices of financial instruments

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

21.5. Liquidity risk and risk of significant disruptions in cash flows

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

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

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

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	Current assets / Current liabilities	Receivables + cash / Current liabilities	Average trade and other receivables / Revenue /360	Average trade and other payables / Revenue /360	Average inventories / Revenue /360
31 Dec 2015	0.37*)	0.22*)	29 days*)	62 days	36 days
31 Dec 2014	0.33	0.14	29 days	57 days	38 days

** Current assets and average trade and other receivables balances were adjusted for receivables from shareholders in the amount of PLN 361,848 thousand related to one-off transaction.*

As at 31 December 2015, the Company did not have any loan and credit liabilities. As at 31 December 2015, unused credit lines amounted to PLN 260,000 thousand. Credit limits of PLN 65,000 thousand are available until 25 June 2016 and credit limits of PLN 195,000 thousand are available until 25 June 2018. The Company holds cash in the amount of PLN 30,983 thousand.

In 2015, the Company also financed its operations by issuing short-term notes which were acquired by its subsidiary Pfleiderer Prospan S.A. After redemption, a new series of short-term notes is usually issued for another period, which provides a constant source of financing for the Company.

22. Court proceedings

Following an inspection in October 2011, on 30 March 2012 the Polish Office of Competition and Consumer Protection (the "OCCP") commenced proceedings against 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., regarding possible horizontal price fixing and exchange of information on conditions of sale in the chipboard and fibreboard markets in Poland, which may constitute breaches of Article 6 of the Act on Competition and Consumer Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. The maximum fines that the OCCP may impose on Pfleiderer Grajewo S.A. and/or Pfleiderer Prospan S.A. in these proceedings amount to 10% of their respective tax revenues in the year preceding the issuance of the infringement decision. The end date of the proceedings is still uncertain.

At the date of the publication of these financial statements it is unclear whether OCCP will determine any breaches of Article 6 of the Act on Competition and Consumer Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. At this stage, given the fact-intensive nature of the issues involved and the inherent uncertainty of such investigation, it is not possible to evaluate the outcome and potential financial consequences of this still pending and long-lasting investigation, management has determined that not all of the conditions have been met to require a provision for this matter Therefore as at 31 December 2015 no provision has been recognized by the Company in the Company's financial statements.

23. Corporate governance

23.1. Appointment and removal of the management staff

Pursuant to the Company's Articles of Association, the Management Board members are appointed and recalled by Company's Supervisory Board. The Articles of Association and resolutions of the Company'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.

23.2. Management bodies

The 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 Company's operations with the exception of powers reserved for the Company's other governing bodies under law or the Company'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 Company'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 Company'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.

23.3. Amendments to the 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.

23.4. General Meeting

The General Meeting of the Company 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 Company's web site.

23.5. Company shares

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

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

23.6. Financial statements

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

23.7. Statement of compliance with the corporate governance rules

The Management Board declares that the Company 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 21 November 2012, with the exception of the following rules, which the Company does not apply.

Rule I.12

The Company 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 IV.10

The Company 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.

As of 1 January 2016, Pfleiderer Grajewo S.A. follows the principles of corporate governance, as listed in the document "Good Practices Adopted by Companies Quoted on the Warsaw Stock Exchange 2016".

24. Auditor

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

KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa
ul. Inflancka 4A
00-189 Warszawa, Poland

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

The agreement, dated 17 July 2015, provided for the review of the interim stand alone and consolidated financial statements of Pfleiderer Grajewo S.A., the Parent, and the group reporting package of the Pfleiderer Grajewo S.A. The fee due to KPMG under the Agreement was PLN 73 thousand. The agreement, dated 12 October 2015, provided for the review of the interim stand alone and consolidated financial statements of Pfleiderer Grajewo S.A., the Parent, and the group reporting package of the Pfleiderer Grajewo S.A. The fee due to KPMG under the Agreement was PLN 75 thousand.

The most recent agreement with KPMG, dated 12 January 2016, provided for an audit of the annual stand alone and consolidated financial statements of Pfleiderer Grajewo S.A. and annual group reporting package of the Pfleiderer Grajewo Group for the financial year ended 31 December 2015, prepared in accordance with the IFRS. The fee due to KPMG under the agreement is PLN 200 thousand.

The total fee for the audits specified above amounts to PLN 348 thousand (PLN 311 thousand for the previous financial year).

In audited period, the fees due to KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. for remaining assurance services and other services amounted to PLN 8,080 thousand and PLN 140 thousand, respectively.

25. Supervisory Board Committees

The following committees operate in the Company: the Audit Committee and the Appointment and Remuneration Committee, serving a permanent committees with the Supervisory Board. The committees are appointed by the Supervisory Board from among its members through resolutions. Each committee selects, through resolution, a chairman of the committee and a vice-chairman from among its members. The committees comprise at least three members, out of whom at least one should fulfill independence criteria set forth in the committee regulations. Committees are appointed when the Supervisory Board has at least five members. Each committee can appoint experts from outside the Supervisory Board, to assist in the performance of its tasks. Committee sessions are organized at the committee chairman's own initiative. Committee resolutions are passed by absolute majority of votes. In the event of equal number of votes, the chairman's vote is decisive. Committees can also pass resolutions in writing or applying communication devices. Resolutions are passed with the presence of a half of the members at the least, provided that all members have been duly notified of the session. Minutes are drawn up from committee sessions. The minutes should be signed by all Supervisory Board members present at the meeting. A copy of the minutes should be sent to all Supervisory Board members. The minutes should contain committee assessments, its conclusions and reports. The chairman and the vice-chairman of the committee are authorized to submit applications to the Supervisory Board on the issue of assessments of the correctness of tasks performed.

Audit Committee

The Audit Committee is in charge of: (i) monitoring financial reporting processes, the correctness of financial information presented by the Company, the effectiveness of internal control, internal audit and risk management systems, (ii) issuing assessments for the Supervisory Board concerning the selection, appointment, reappointment and dismissal of a chartered auditor and the conditions of their appointment, (iii) monitoring the independence and objectivism of the chartered auditor; (iv) controlling the type and scope of services exceeding audit services, but commissioned to the chartered auditor, (v) reviewing the effectiveness of the external audit process and monitoring the implementation of guidelines specified by external chartered auditors by Management Board members and employees, and (iv) examining the causes for resignation from the provision of services by a chartered auditor.

Appointment and Remuneration Committee

The purpose of the Appointment and Remuneration Committee is to monitor changes in employment, employee rotation and to survey the employee satisfaction level. The Appointment and Remuneration Committee is also in charge of supervising the payroll policy of the Company, including of monitoring the employee award and premium system. Furthermore, the committee oversees other issues related to human resources, which fall into the competences of the Supervisory Board or the committee itself, pursuant to the internal regulations and effective laws.

The Appointment and Remuneration Committee is obligated to draw up an annual report regarding its activity as of the end of each financial year. The report should be presented to the Supervisory Board in a term which would allow it to be included in a report on the activity of the Supervisory Board.

On 2 March 2016, the Supervisory Board resolved to form a Transformation Committee at the Company's Supervisory Board, with members: Mr Paolo G. Antonietti, Mr Zbigniew Prokopowicz and Mr Stefan Wegener.

26. Non-recurring events affecting the Pfleiderer Grajewo S.A.'s financial performance

No non-recurring events which might affect the Pfleiderer Grajewo S.A.'s financial performance occurred in 2015.

27. Events subsequent to the end of the reporting period

Commercial papers issuance

After 31 December 2015, Pfleiderer Grajewo S.A. carried out 11 issues of commercial paper in the form of short-term notes with a view to optimising the Company's financial liquidity management. The notes were issued under the Note Issue Programme Agreement executed on 22 July 2003 with Bank PEKAO S.A. The notes were issued in accordance with the Polish Bonds Act of 29 June 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Prospan S.A.

Registration of capital under issue of series E shares

On 19 January 2016, the District Court in Białystok made a record in the business register, concerning an increase in the share capital of Pfleiderer Grajewo S.A. from the sum of PLN 16,376 thousand to the sum of PLN 21,351 thousand through the issue of 15,077,007 series E ordinary bearer shares of PLN 0.33 in par value each, issued pursuant to Resolution No. 3 of the Extraordinary General Shareholders Meeting of 27 July 2015 concerning the increase in the share capital of the Company by way of issuing of new shares, a public offering of newly issued shares, the exclusion of all the pre-emptive rights of the existing shareholders with respect to all the newly issued shares, the dematerialization and seeking of the admission of the rights to shares and the newly issued shares to trading on a regulated market operated by the Warsaw Stock Exchange and the amendment to the Company's statute, as well as authorizing the Supervisory Board of the Company to adopt the consolidated text of the Company's statute.

The aforementioned series E shares were issued by the Company at an issue price of PLN 24.00 for 1 share.

Due to the registration of the increase of the share capital of the Pfleiderer Grajewo S.A. on 19 January 2016, the Company and Atlantik S.A. concluded a dispositive agreement, under which the Company purchased the sole share in Pfleiderer GmbH of EUR 30,000 thousand in par value, as representing 100% of the share capital of Pfleiderer GmbH and authorizing the exercise of 100% of voting rights at the meeting of shareholders of Pfleiderer GmbH.

The aforementioned dispositive agreement was concluded based on a conditional sales agreement concluded on 5 October 2015 by the Company and Atlantik S.A.

Before 19 January 2016, Pfleiderer GmbH was the intermediate parent of the Company.

Purchase of the share in Pfleiderer GmbH by the Company was the last element of the reorganization process of the entire Pfleiderer capital group, as a result of which Pfleiderer Grajewo S.A. became the Parent Company of the Pfleiderer concern.

Changes in the Supervisory Board

On January 19, 2016, Richard Mayer (the then member of the Supervisory Board of the Company), Gerd Hammerschmidt (the then member of the Supervisory Board of the Company) and Jochen Schapka (the then member of the Supervisory Board of the Company) resigned from their seats in the Supervisory Board of the Company.

The resignations were submitted in relation to the completion of reorganization of the Pfleiderer capital group. As a result of the reorganization, including the purchase of one share in company Pfleiderer GmbH by the Company, the Company became the parent company to other companies from the Group, in which Richard Mayer, Gerd Hammerschmidt and Jochen Schapka served as members of management bodies or otherwise, which could have not been combined with seats in the Supervisory Board of the Company as the parent company.

On 19 February 2016, Mr Zbigniew Prokopowicz, Mr Krzysztof Sędzikowski and Mr Stefan Wegener were appointed to the position of the Members of the Supervisory Board. On 2 march 2016 Mr Zbigiew Prokopowicz was appointed to the position of the Deputy Chairman of the Supervisory Board.

Changes in the Management Board

On 2 March 2016, Mr. Richard Mayer was appointed to the position of Member of Management Board-Chief Financial Officer and Mr. Rafał Karcz was dismissed from the position of Chief Financial Officer and appointed to the position of Member of Management Board - Chief Administration Officer.

On 2 March 2016, Mr. Dariusz Tomaszewski submitted resignation from the position of Member of Management Board – Sales Director.

Reorganization of the Pfleiderer Capital Group and launch of a revolving credit facility

On 19 January 2016, the Pfleiderer Grajewo S.A. and its subsidiaries: Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. became the debtors under a Revolving Facility Agreement (next to Pfleiderer GmbH and Pfleiderer Holzwerkstoffe GmbH).

In connection to the Reorganization of the Pfleiderer Group, on 19 January 2016, the Company, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. (collectively referred to as the „Eastern Segment Guarantors") concluded a guarantee agreement ("Guarantee Agreement") concerning liabilities under insubordinate secured bonds bearing 7.875% in total interest, issued by Pfleiderer GmbH on 7 July 2014, of enforceability date due in 2019, in a total amount of EUR 321,684 thousand. The aforementioned is a result of fulfilling the conditions included in Amending Agreement dated 5 October 2015.

Shareholders

On 25 January 2016 and 4 February 2016, Pfleiderer Grajewo S.A. received notifications from Atlantik S.A., Pfleiderer Service GmbH and Pfleiderer GmbH concerning the reduction of share in the total number of voting rights at the General Meeting of shareholders of the Company. On 25 January 2016, Pfleiderer Grajewo S.A. received a notification from Strategic Value Partners, LLC, concerning an increase in the total number of voting rights at the General Meeting of shareholders of the Company.

	Shareholding structure after Initial Public Offering		
		Number of shares	**%**
1	Strategic Value Partners LLC*	16 772 896	25,92%
2	Atlantik S.A.	16 374 497	25,31%
3	Aviva OFE Aviva BZ WBK	4 928 816	7,62%
4	ING OFE	2 639 144	4,08%
5	pozostali akcjonariusze	23 985 654	37,07%
		64 701 007	100,00%

	Subsidiaries of Strategic Value Partners LLC directly holding shares of Pfleiderer Grajewo SA		
		Number of shares	**%**
1	Yellow Saphire S.a.r.l.	6 172 705	9,54%
2	Brookside S.a.r.l.	5 076 738	7,85%
3	Field Point IV S.a.r.l.	3 079 810	4,76%
4	Kings Forest S.a.r.l.	1 745 520	2,70%
5	Field Point V S.a.r.l.	449 409	0,69%
6	Field Point Acquisitions S.a.r.l.	248 714	0,38%
		16 772 896	**25,92%**

Additionally, Pfleiderer Grajewo S.A. received notification on the purchase of shares by:

1) Strategic Value Partners LLC (direct purchase of shares)

2) Brookside S.a.r.l. oraz Yellow Saphire S.a.r.l. (indirect purchase of shares)

Rating

On 26 January 2016, Moody's Investors Service ("Moody's") rated the corporate family rating – "CFR" as B1, and the probability of default rating – "PDR" as B1-PD in regards the Company, which is currently the parent company of the Pfleiderer Group ("Pfleiderer" or the "Group") in result of capital increase through public offering and reverse acquisition of Pfleiderer GmbH, financed by net revenues from the increase of share capital, completed on 19 January 2016. At the same time, Moody's raised the rating of insubordinate secured bonds for a sum of EUR 322 M, with a buyout date due in 2019, issued by Pfleiderer GmbH, from B3 (LGD4) to B2 (LGD4). The perspectives for all ratings are positive. B1 CFR rating awarded to the Company reflects changes in the legal and organizational structure of the Group, following the completion of the Transaction, as well as the intent to reduce the total debt of the expanded Group. In the opinion of the agency, the purchase of Pfleiderer GmbH by the Company has significantly improved the credit profile of the Group, which allows for the award of B1 CFR rating with positive perspective, which stands for one-grade progress in relation of the cancelled B2 CFR rating for Pfleiderer GmbH from before it was acquired by the Company. The B1 CFR rating awarded, as well as the B2 rating for insubordinate bonds reflect the financial results of Pfleiderer in 2015 and improved standing of the Pfleiderer bondholders, as a result of improved package of securities and intermediate access to the cash flows generated by the Company and its subsidiaries, which was limited before the acquisition.

The rating must not be construed as a recommendation for purchase, disposal or maintenance of securities and can be altered or revoked at any time.

On 29 January 2016, Standard & Poor's Ratings Services ("S&P Agency") awarded the Company with "B" corporate credit rating and raised the long-term corporate credit rating for Pfleiderer GmbH from "B-" to "B". The perspectives of both ratings are positive. Company rating is based on an assessment by the S&P Agency of the Pfleiderer capital group in consolidated balance, and the Pfleiderer GmbH rating reflects the situation of this company as the main subsidiary of the Company. Furthermore, the S&P Agency raised the rating of insubordinate secured bonds of EUR 322 M, issued by Pfleiderer GmbH to "B-" from "CCC". The recovery rating was maintained at level "5", but was shifted to the upper half of this range, which indicates that the S&P Agency is expecting moderate recovery of receivables in the event any liabilities are not satisfied. The S&P Agency also raised the issue rating concerning the superior revolving credit facility for the company in the sum of EUR 60 M, with the enforceability date due in 2016 to "BB-"from "B+" and cancelled the rating at the request of the company. As of rating cancellation, the recovery rating for the superior revolving credit facility was "1", which indicated very high (90%-100%) probability of recovery of receivables in the event any liabilities are not satisfied. Rating increase was preceded by successful increase of the share capital of the Company through public offering and reverse acquisition of Pfleiderer GmbH, financed by net revenues from capital increase, carried out on January 19, 2016 ("Transaction". The S&P Agency claimed that the Transaction had beneficial effect on the credit standing, as the financial risk profile of the consolidated Pfleiderer capital group was improved and the shareholder structure was more balanced.

The rating must not be construed as a recommendation for purchase, disposal or maintenance of securities and can be altered or revoked at any time.

28. Financial forecast 2016

Given the current economic climate, the Group will refrain from publishing its forecast for 2016 until the market volatility subsides and the Polish market of furniture manufacturers becomes more stable.

Pfleiderer Grajewo Management Board ***Grajewo, 18 March 2016***

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Administration Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Officer

Richard Mayer
Member of the Management Board, Chief Financial Officer