POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2015

year

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

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

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

FINANCIAL HIGHLIGHTS	PLN '000 2015	PLN '000 2014	EUR '000 2015	EUR '000 2014
I. Sales revenue	1 564 998	1 522 819	373 972	363 502
II. Operating profit/(loss)	149 336	142 933	35 685	34 119
III. Profit/(loss) before tax	138 486	128 014	33 093	30 557
IV. Net profit	112 137	103 256	26 796	24 648
V. Net profit attributable to equity holders of the parent	112 137	103 256	26 796	24 648
VI. Net cash provided by (used in) operating activities	237 276	183 507	56 699	43 804
VII. Net cash provided by (used in) investing activities	-99 929	-89 632	-23 879	-21 395
VIII. Net cash provided by (used in) financing activities	-67 513	-91 813	-16 133	-21 916
IX. Total net cash flow	69 834	2 062	16 687	493
X. Total assets	1 693 107	1 216 993	397 303	285 525
XI. Liabilities	502 845	460 623	117 997	108 069
XII. Non-current liabilities	181 050	176 518	42 485	41 414
XIII. Current liabilities	321 795	284 105	75 512	66 655
XIV. Equity	1 190 262	756 370	279 306	177 456
XV. Share capital	16 376	16 376	3 843	3 842
XVI. Weighted average number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVII. Weighted average diluted number of shares	49 624 000	49 624 000	49 624 000	49 624 000
XVII. Earnings per ordinary share (PLN/EUR)	2,26	2,08	0,54	0,50
XIX. Diluted earnings per ordinary share (PLN/EUR)	2,26	2,08	0,54	0,50
XX. Book value per share (PLN/EUR)	23,99	15,24	5,63	3,58
XXI. Diluted book value per share (PLN/EUR)	23,99	15,24	5,63	3,58
XXII. Declared or paid dividend per share (PLN/EUR)	0,00	0,00	0,00	0,00

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First name and surname	Position	Signature
March 20th 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

Pfleiderer Grajewo S.A. Group

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

The opinion contains 2 pages
The supplementary report contains 11 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2015

OPINION OF THE INDEPENDENT AUDITOR

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

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Pfleiderer Grajewo S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Pfleiderer Grajewo S.A. with its registered office in Grajewo, ul. Wiórowa 1 ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2015, the consolidated statements of profit and loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended and notes to the consolidated financial statement for the financial year ended 31 December 2015.

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

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

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act 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.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements of Pfleiderer Grajewo S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

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

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

Signed on the Polish original

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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 Group 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 1,565.0 million, which means a slight increase compared to last year (PLN 1,522.8 million). This development 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. Despite of this market backdrop, the Group demonstrated an increase in revenue.

The demanding situation in the Group's 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 Group'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 stable margin levels.

The Group's results of operations for 2015 remained stable. EBIT reached almost PLN 149.3 million, representing an increase of 4% 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 14.5 million, as compared to PLN 8.7 million in 2014. Net profit attributable to majority shareholders amounted to PLN 112.1 million, an increase of 8% 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 111.1 million. In August 2015 the Group expanded its range of lacquered, sanded and customized product variants at the MDF plant in Grajewo. The new capital investment is expected to significantly expand our range of value-added products and is intended to diversify the Group's product portfolio by increasing the higher margin products' share of total sales volume. The Group also 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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THE PFLEIDERER GRAJEWO GROUP

ANNUAL CONSOLIDATED 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 19 February 2009 (consolidated text: Dz.U. of 2014, item 133), the Management Board of Pfleiderer Grajewo S.A. (the Parent) represents that to the best of its knowledge the annual consolidated 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 Pfleiderer Grajewo Group's assets and financial results, and that the annual consolidated Directors' Report on the Pfleiderer Grajewo Group's operations gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

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

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board,
Chief 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)

Consolidated financial statements

Consolidated statements of financial position

	Note	Dec 31 2015	Dec 31 2014
Assets			
Property, plant and equipment	13	698,438	679,019
Intangible assets	14	4,081	2,665
Goodwill	6	107,829	107,829
Investments in jointly controlled entities	15	52	52
Long term investments	16	75	5,075
Investment property	17	3,860	3,860
Deferred tax asset	18	20,338	17,390
Advances paid on fixed assets		30,184	4,787
Government grants receivable	19	90,193	69,336
Fair value of hedging instruments	28	-	626
Non-current assets		**955 050**	**890,639**
Inventories	20	156,209	181,016
Trade and other receivables	21	482,180	122,908
Income tax receivable		431	984
Cash and cash equivalents		88,346	18,512
Other short term financial assets	16	3,272	2,347
Government grants receivable	19	4,892	-
Fair value of hedging instruments	28	2,727	587
Current assets		**738,057**	**326,354**
Total assets		**1,693,107**	**1,216,993**
Equity and liabilities			
Equity			
Share capital	22	16,376	16,376
Share premium	22	289,806	289,806
Reserves	22	677,490	295,186
Retained earnings		206,590	155,002
Total equity attributable to owners of the Company		**1,190,262**	**756,370**
Total equity	22	**1,190,262**	**756,370**
Liabilities			
Loans and borrowings	24	40,926	63,696
Employee related payables	25	9,667	10,986
Provisions	26	856	815
Deferred tax liabilities	18	15,987	13,674
Fair value of hedging instruments	28	455	-
Deferred income from government grants	19	113,159	87,347
Non-current liabilities		**181,050**	**176,518**
Loans and borrowings	24	21,700	44,655
Income tax payable		3,637	5,320
Trade and other payables	27	266,390	206,289
Employee related payable	25	23,979	23,349
Deferred income from government grants	19	6,089	4,492
Current liabilities		**321,795**	**284,105**
Total liabilities		**502,845**	**460,623**
Total equity and liabilities		**1,693,107**	**1,216,993**

The notes are an integral part of these consolidated financial statements

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Consolidated statements of profit and loss and other comprehensive income

	Note	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
Revenue	5	1,564,998	1,522,819
Cost of sales	12	(1,251,338)	(1,220,172)
Profit on sales		**313,660**	**302,647**
Other income	7	25,829	13,004
Distribution expenses	11	(116,553)	(111,659)
General and administrative expenses	11	(63,025)	(55,401)
Other expenses	8	(10,575)	(5,658)
Result from operating activities		**149,336**	**142,933**
Financial income		2,182	1,414
Financial expenses		(13,032)	(16,333)
Net financing costs	10	**(10,850)**	**(14,919)**
Profit before tax		**138,486**	**128,014**
Income tax expense	12	(26,349)	(24,758)
Net profit for the reporting period		**112,137**	103,256
Attributable to non-controlling interests		-	-
Attributable to shareholders of the parent		112,137	103,256
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency differences on translating foreign operations		458	(374)
Cash flow hedges- effective portion of changes in fair value		2,665	1,213
Cash flow hedges- net change in fair value reclassified to current year profit or loss		(5,453)	-
Other comprehensive income		**(2,330)**	**839**
Total comprehensive income for the period		**109,807**	**104,095**
Comprehensive income for the period attributable to:			
Shareholders of the Company		109,807	104,095
Non-controlling interests		-	-
Total comprehensive income for the period		**109,807**	**104,095**
Basic and diluted earnings per share (PLN)	23	2.26	2.08

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Consolidated statements of changes in equity

Financial year ended 31 December 2015

	Share capital	Share premium	Statutory reserve funds	The unregistered issuance of shares	Other reserves	Revaluation reserve	Exchange differences on translating foreign operations	Cash flow hedges	Retained earnings	Total
1 Jan 2015	**16,376**	**289,806**	**293 812**	-	-	**619**	**(458)**	**1,213**	**155,002**	**756,370**
Comprehensive income for the period										
Net profit	-	-	-	-	-	-	-	-	112,137	**112,137**
Other comprehensive income	-	-	-	-	-	-	458	(2,788)	-	**(2,330)**
Total comprehensive income for the period	-	-	-	-	-	-	**458**	**(2,788)**	**112,137**	**109,807**
Transactions with owners recognised in equity										
Unregistered share capital increase of Pfleiderer Grajewo S.A.	-	-	-	324,085	-	-	-	-	-	**324,085**
Capital allocated to purchase of own shares	-	-	(140,000)	-	140,000	-	-	-	-	-
Transfer of part of 2014 net profit to statutory reserve funds	-	-	60,549	-	-	-	-	-	(60,549)	-
Transactions with owners recognised in equity	-	-	(79,451)	324,085	140,000	-	-	-	(60,549)	**324,085**
31 Dec 2015	**16,376**	**289,806**	**214,361**	**324,085**	**140,000**	**619**	-	**(1 575)**	**206,590**	**1,190,262**

The notes are an integral part of these consolidated financial statements.

PFLEIDERER GRAJEWO GROUP

(all amounts in PLN thousand)

Financial year ended 31 December 2014

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

The notes are an integral part of these consolidated financial statements.

(all amounts in PLN thousand)

Consolidated statements of cash flows

	Note	1 Jan– 31 Dec 2015	1 Jan– 31 Dec 2014
Net profit for the reporting year		**112,137**	**103,256**
Adjustments for:		143,438	90,979
Depreciation and amortisation	11	64,393	53,547
Foreign exchange gains		(5,582)	(1,278)
Interest for the period	10	10,278	14,871
Loss on investing activities		53	927
Income tax disclosed in profit or loss of the period	12	26,349	24,758
Amortisation of government grants	19	(4,494)	(1,512)
Result on forward contracts		5,367	1,183
Increase/(decrease) in exchange differences on translating foreign operations		458	(357)
Other adjustments		575	454
Changes in:			
- trade and other receivables		(9,714)	(4,901)
- inventories		24,807	(3,324)
- trade and other payables	33	31,596	2,299
- employee benefit obligations		(689)	4,283
- provisions		41	29
Cash flows from operating activities		**255,575**	**194,235**
Interest received		222	309
Income tax paid		(18,521)	(11,037)
Net cash provided by operating activities		**237 276**	**183,507**
Cash flows from investing activities			
Disposal of property, plant and equipment		299	549
Acquisition of intangible assets and property, plant and equipment		(112,428)	(109,676)
Income from disposal of discontinued operations		14,660	26,279
Loans advanced to other entities		4,000	(7,000)
Acquisition of the subsidiary		(439)	-
Interest received		347	216
Expenditures related to settlement of derivatives		(6,368)	-
Net cash used in investing activities		**(99,929)**	**(89,632)**
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		(45,725)	(46,800)
Transaction costs related to increase of share capital		(13,305)	-
Acquisition of non-controlling interests		-	(30,341)
Increase in borrowing and other debt instruments		-	621
Interest paid		(8,483)	(15,293)
Net cash used in financing activities		**(67,513)**	**(92,813)**
Increase in cash		69,834	2,062
Cash at beginning of the period		18,512	16,450
Cash at end of the period		**88,346**	**18,512**

The notes are an integral part of these consolidated financial statements.

CONTENTS

(all amounts in PLN thousand)

1. General information

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

The Company was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422.

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

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

The consolidated financial statements for the financial year ended 31 December 2015 of the Pfleiderer Grajewo Group S.A. comprise the financial data of the Company and its subsidiaries (collectively the "Group").

The Group is primarily involved in manufacturing and veneering of wood and wood-based products and paper finishing, as well as it is engaged in domestic and foregin trade.

2. Structure of the Group

The Pfleiderer Grajewo Group consists of Pfleiderer Grajewo S.A. and its subsidiaries (together "the Group"). In the period from 1 January to 31 December 2015, Pfleiderer Grajewo S.A. was the Parent Company with respect to the following subsidiaries:

Subsidiaries:		**31 Dec 2015 % shares and votes**	**31 Dec 2014 % shares and votes**
1. Pfleiderer Prospan S.A.	Wieruszów	100%	100%
2. Silekol Sp. z o.o.	Kędzierzyn Koźle	100%	100%
3. Pfleiderer MDF Sp. z o.o.	Grajewo	100%	100%
4. Jura Polska Sp. z o.o.	Grajewo	100%	100%
5. Unifloor Sp. z o.o. w likwidacji	Wieruszów	100%	100%
6. Grajewo OOO	Novgorod, Rosja	0%	100%
7. Pfleiderer Services Sp. z o.o.	Grajewo	100 %	100 %

Re 6. sale of shares on 30 April 2015, for details please refer to note no 10

Equity-accounted jointly-controlled entities:			
1. Blitz 11-446 GmbH	Neumarkt	50%	50%

Changes in the Group's structure in the reporting period

On 30 April 2015, Pfleiderer Grajewo S.A. sold shares in its subsidiary – Grajewo OOO. The sale price for those shares was PLN 4 (EUR 1).

On 19 January 2016, the District Court in Białystok registered the increase of share capital of Pfleiderer Grajewo S.A. from PLN 16,376 thousand to PLN 21,351 thousand through the issuance of 15,077,007 ordinary shares of series E with a par value of PLN 0.33 per share. As a result of registration of share capital increase, on 19 January 2016 the Company and Atlantik S.A. concluded an agreement, according to which Pfleiderer Grajewo S.A. acquired the only share in Pfleiderer GmbH with a par value of EUR 30 000 thousand, representing 100% of the share capital and authorising the exercise of 100% of voting rights at the general meeting of shareholders of Pfleiderer GmbH. As a result, the new Group structure was created which is presented in the note 35 Events subsequent to the end of the reporting period.

3. Basis of preparation

a) Statement of compliance

This consolidated 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 ("IFRS EU"). It was authorised for issue by the Group's Management Board on 18 March 2016.

Details of the Group's accounting policies, are included in Notes 4.

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 consolidated financial statements. The Group 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 Group, abovementioned standards, interpretations and amendments to standards would not have a material impact on the consolidated financial statements, if they had been applied by the Group at the reporting date, with the exception of IFRS 9 "Financial Instruments", which could have a significant impact on the classification and valuation 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 Group is a party.

b) Basis of accounting

The consolidated financial statement has been prepared on the historical cost basis, except for derivative financial instruments and investment properties, which are measured at fair value.

c) Functional and presentation currency

This consolidated financial statement is presented in the Polish zloty (PLN) and all amounts have been rounded to the nearest thousand (PLN'000) unless stated otherwise.

Functional currency of the Company is Polish zloty.

d) Estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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 consolidated financial statements, Note 4, Section d (v), e (iv) – useful lives of property, plant and equipment and intangible assets – determined based on estimated useful lives of property, plant and equipment and intangible assets and verified at least annually,
- Notes 6, 13 – Goodwill, recoverable goodwill, recoverable amount of non-financial non-current assets – if there is an indicator of impairment, the recoverable amount is determined as the higher of fair value less cost to sell or value in use (based on discounted cash flows) by applying the appropriate discount rate (cost of capital, growth rates),
- Note 18, 19 – Corporate income tax and Government Grants Receivables – recognition of deferred tax assets; availability of future taxable profit against which carryforward tax losses can be used; availability of future taxable profit against which government grants receivables can be utilized,
- Note 21 – Derecognition of trade receivables covered by factoring arrangements – based on analysis of risk and benefit transfer, control retention and degree of involvement,
- Note 25 – Measurement of liabilities under defined employee benefit plans – employee benefits are evaluated by an actuary. The valuation is based on assumptions regarding interest rates, remuneration increase, inflation rate, and employment turnover,
- Notes 26, 31 – Provisions and contingent liabilities - recognition of provisions and contingent liabilities requires estimating the probable outflow of economic benefits and making the best estimate of expenditure required to settle present obligation at the end of reporting period,
- Note 28 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments,
- Note 34 –Fair value measured on a provisional basis.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4. Significant accounting policies

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

a) Basis of consolidation

(i) Business combinations

The Group accounts for business combination using the acquisition method when control is transferred to the Group.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

Any gain on a bargain purchase is recognized in profit or loss immediately.

Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlements of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, than it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit and loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until to the date the control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and the other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Investments in jointly-controlled entities

Equity interests of joint ventures are investments jointly controlled by the Group. It is assumed that the Group has joint control if strategic financial and operating decisions require unanimous consent of the parties sharing control. Investments in jointly-controlled entities are accounted for initially at cost and subsequently under the equity method, based on financial data derived from their financial statements prepared as at the end of the same reporting period as the separate financial statements of the Company, using the same accounting policies with respect to similar transactions and other events in comparative periods.

The consolidated financial statements include the Group's share in profits and losses and other comprehensive income (after adjustments to align the accounting policies), from the date that joint control commences until the date that joint control ceases. When the Group's share in losses exceeds the value of its interest in a jointly-controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to zero. Further losses are not recognised, except for losses resulting from obligations contracted by the Group or from payments made on behalf of the jointly controlled entity.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investee are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are also subject to elimination in the same way as unrealised gains, unless the transaction provides evidence of an impairment loss of the asset transferred.

b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the exchange rate at the reporting date.

Non-monetary assets and liabilities presented in foreign currencies valued at historical cost are translated at exchange rates effective as at the transaction 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 the translation of a qualifying cash flow hedges to the extent that the hedges are effective and foreign currency translation differences on net investments in subsidiaries.

(all amounts in PLN thousand)

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

	31 Dec 2015	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

Exchange rates used to translate items of the statement of profit and loss and other comprehensive income:

	31 Dec 2015	31 Dec 2014
EUR	4.1848	4.1893
USD	3.7928	3.1784
GBP	5.7846	5.2225
RUB	0.0616	0.0821
RON	0.9421	0.9440

(ii) Foreign operations

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

(iii) Net investments in foreign operations

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

c) Financial instruments – classification and valuation

(i) Non-derivative financial instruments

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

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

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

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

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

Loans 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 and loans 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 liabilities 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 Group becomes a party to the contractual provisions of the instrument.

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

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

(ii) Derivative financial instruments

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

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 Group 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 Group 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 Group will use to evaluate the effectiveness of the hedging instrument.

The Group 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 Group 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 Group 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.

d) 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 Group to construct, install, adapt or improve such asset, including non-deductible VAT or excise tax, until the day on which the asset was available for use in a manner intended by the management. The production cost comprises also the estimated cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such obligation exists. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment or a tangible asset under construction.

If 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.

(ii) Reclassification to investment property

When the Group ceases using a property for own purposes and designates it for investment activity, the property is measured at fair value and reclassified to investment property. Any gain arising on this remeasurement is recognised in profit or loss, to the extent that it reverses a previous loss on impairment loss on the specific property with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

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

Lease agreements under which the Group (as a lessee) assumes substantially all of the risks and rewards 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 Group's statement of financial position.

(iv) Subsequent expenditure

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

(v) Depreciation

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

The 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.

e) Intangible assets

(i) Goodwill

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

Goodwill is recognised on the date of obtaining the control as:

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

After initial recognition, goodwill is disclosed at cost of purchase net of accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation of intangible assets is calculated with the straight-line method over their estimated useful lives, unless their useful economic lives are indefinite and is generally recognised in profit or loss. Goodwill is not amortised and is subject to be tested for impairment at the end of each financial year or more frequently in case of events or changes indicating potential impairment. 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.

f) Investment property

Investment property is held to earn rental income and/or for capital appreciation. Investment property is not held for sale as part of normal operations, nor it is used in the production process, supply of goods and services, or for administrative purposes. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, 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.

An impairment loss on a financial asset measured at amortised cost is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

All material financial assets are tested for impairment at each balance sheet 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 and reflected in an allowance account.

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 Group 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. Goodwill is tested annually for impairment.

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.

An impairment loss is recognised when the carrying amount of an asset or CGU recognised in the statement of financial position is higher than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets which generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

Impairment losses are recognised in profit or loss. 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, 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.

(iii) Non-controlling interests (NCI)

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

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

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 Group 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.

(ii) Defined contribution plan

The Group 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 Group and by an employee to a pension fund. In connection with the above, the Group's liabilities for each period are recognised based on the contributions payable in a given year.

(iii) Other long term employee benefits

In accordance with the remuneration system of the Group, employees of Pfleiderer Grajewo S.A, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Jura Polska Sp. z o.o. are entitled to receive retirement benefits (one-off payment upon retirement).
The Group'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.
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 Group 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 Group companies.
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 Group does not have sufficient quantities of rights to fully cover the amount of the carbon dioxide emitted in a year, the Group 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 fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.
Revenue is recognised when significant risks and rewards of 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.
Revenue from provision of services includes mainly revenue from transportation services, which are recognised when a service is completed (i.e. the items are delivered to the recipient).

(ii) Government grants

Government grants are recognised in the statement of financial position only when there is reasonable assurance that the grant will be received and the Group will comply with any conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognized and are recognised in other operating income. Grants received as compensation for costs of assets are recognised in profit or loss on a systematic basis as other income over the useful economic life of the asset.

In addition to monetary government grants, the Group also recognises government grants in the form of exemption from income tax as government grant receivables and deferred income (government grant) related to subsidiary's activities in a Special Economic Zone. The government grant is in the form of exemption from income tax until the earlier of the two: use of the investment tax credit (maximum amount calculated on the basis of the regulations applicable to special economic zones) or expiry of the Special Economic Zone. In order to assess the amount of the government grant to be utilised in the following financial years, the Group estimated the total amount of the potential tax payable on the tax-exempt income generated by it from the business conducted in the Special Economic Zone based on the approved budgets for the following financial years.

Any changes in the estimated benefit that will be received from the tax expemtion are recognized as an adjustment against deferred income and government grant assets. The Group accretes the government grants into other income. For that purpose, the Group compiles a list of the property, plant and equipment (with the applied depreciation rates) where capital expenditure made on such assets in the particular years is taken into account in calculating the amount of the government grants in the period of conducting operations in the special economic zone. Based on the above data, the Group estimates the weighted average depreciation rate for the property, plant and equipment. In the following reporting periods the Group amortises the government grants recognised as deferred income using the weighted average depreciation rate calculated for the property, plant and equipment the acquisition of which served as the basis for establishing the amount of the government grants.

The Group also derecognises the government grant assets (tax receivable by the amount of the government grant utilised in the reporting period), and reports the change in the asset within income tax expense (note 19).

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 finance income and costs

Finance income includes interest income on funds invested by the Group, dividend income, gains on hedging instruments that are recognised in profit or loss, foreign currency gains (excluding gains from foreign currency differences classified to other operating income arising from trade receivables, trade liabilities, cash and fixed assets purchases and disposals) and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised in profit or loss on an accrual basis using the effective interest rate method.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on hedging instruments that are recognised in profit or loss, foreign 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 posted on a net basis as either finance income or finance costs or in other income if relate to operating foreign exchange differences.

p) Income tax

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.

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 consolidated statement of financial position and disclosed in the consolidated 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 the Group is able to control the timing of reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on initial recognition of goodwill (only deferred tax liability).

Deferred tax 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; such reductions are reversed when the probability of future taxable profits improves.

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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

q) Earnings/(Loss) per share

The Group presents basic and diluted earnings (loss) per share for ordinary shares. Basic earnings (loss) per share are calculated by dividing the profit (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share 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.

r) Determination and presentation of operating segments

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

Operating segments are components of the Group 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 management 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 Group 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.

(all amounts in PLN thousand)

5. Operating segments

The Group identified only one operating segment – Poland which remained the same as in the Group's consolidated financial statements for the year ended 31 December 2014. Revenue and profit before tax of the operating segment presented in these annual consolidated financial statements equals total revenue and profit before tax of the Group.

Geographic information

In presenting the following information, revenue has been based on the geographic location of customers.

Country	**1 Jan 2015 – 31 Dec 2015**	**1 Jan 2014 –31 Dec 2014**
Poland	1,007,298	1,004,167
Germany	266,566	188,084
Lithuania	54,050	67,045
Sweden	38,761	41,062
Russia	33,626	61,727
Czech Republic	28,820	24,978
Romania	15,778	14,997
Latvia	15,509	16,074
Slovakia	14,008	10,190
Netherlands	11,804	10,764
Ukraine	9,257	11,538
Hungary	9,045	7,085
Denmark	7,584	7,109
Switzerland	6,260	4,467
Italy	5,799	3,960
Belarus	5,749	14,480
Finland	5,052	4,615
San Marino	5,013	4,512
Estonia	3,537	1,760
Bulgaria	2,813	909
Azerbaijan	2,766	2,984
Serbia	2,704	1,718
Kazakhstan	2,670	6,572
Moldova	2,160	2,441
Bosnia and Herzegovina	1,080	1 619
Austria	1,962	1,294
Other countries < PLN 1m	5,327	6,668
Total	**1,564,998**	**1,522,819**

(all amounts in PLN thousand)

Products and Services

By product group	1 Jan 2015– 31 Dec 2015	% share	1 Jan 2014– 31 Dec 2014	% share
Revenue from sale of products:	**1,511,750**	**96.60%**	**1,469,891**	**96.53%**
Chipboards *(raw boards, melamine-faced boards, fibre mats, MFP)*	826,795	52.83%	794,209	52.16%
MDF boards, *(raw MDF, enamelled MDF, fibre mats)*	295,727	18.90%	316,889	20.81%
Glues *(basic resin, specialised resin, formalin)*	304,150	19.43%	258,944	17.00%
Other *(films, foils, edge banding, packaging, and other)*	85,078	5.44%	99,849	6.56%
Revenue from sale of materials	**4,865**	**0.31%**	**5,960**	**0.39%**
Revenue from sale of merchandise	**4,995**	**0.32%**	**6,900**	**0.45%**
Revenue from rendering of services	**43,388**	**2.77%**	**40,068**	**2.63%**
Total sales	**1 564 998**	**100,00%**	**1,522,819**	**100.0%**

Information about major customers

In the financial years 2015 and 2014 no leading customers were identified in the Group, for which turnover would exceeded 10% of Group's total revenue.

6. Goodwill

Impairment test of cash generating unit containing goodwill

The Company's Management Board estimated the recoverable amount of goodwill as at the end of financial year 2015.

In each year the goodwill carrying amount relates to one cash-generating unit (Pfleiderer Prospan S.A.). Recoverable amount of the cash-generating unit was determined based on a calculation of its value in use. The calculations were performed based on cash flow projections adopted in the five-year budgets approved by the Management Board.

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 was applied to reflect the risks specific to a given cash generating unit. A rate of return on 10-year treasury bonds was assumed as the risk-free rates. The main assumptions used to calculate the unit's value in use were as follows:

- terminal growth rate beyond the five-year period covered by the budget – 2.5%;
- discount rate – 9.1%.

Based on sensitivity analysis performed management did not identify any key assumptions, changes of which within a reasonably expected range could cause the carrying amount to become equal to the recoverable amount.

(all amounts in PLN thousand)

7. Other income

	1 Jan 2015 – 31 Dec 2015	1 Jan 2014 – 31 Dec 2014
Profit on sale of property, plant and equipment	154	259
Reversal of impairment loss on receivables	2,522	2,363
Compensations and penalties received	1,471	308
Release of unused accruals and deferred income	1,401	1,099
Government grants	4,494	1,512
Sales of excessive CO2 emission rights	10,108	3 211
Operating foreign exchanges gains	4,853	2,507
Other income	826	1,745
Total	**25,829**	**13,004**

8. Other expenses

	1 Jan 2015 – 31 Dec 2015	1 Jan 2014 – 31 Dec 2014
Loss on disposal of property, plant and equipment	207	1,051
Impairment loss on trade receivables	505	920
Receivables written-off	214	315
Damages paid	904	184
Recognition of accruals	366	2,101
Costs related to the restructuring of the Group	7,106	-
Other expenses	1,273	1,087
Total	**10,575**	**5,658**

9. Employee benefits expense

	1 Jan 2015 – 31 Dec 2015	1 Jan 2014 – 31 Dec 2014
Salaries and wages	93,140	87,878
Social security contributions	24,108	22,904
Change in retirement benefit obligations	(1,052)	3,220
Change in provision for employee claims	41	29
Change in unused holiday accrual	(230)	378
Change in bonus accrual	(254)	(681)
	115,753	**113,728**

(all amounts in PLN thousand)

10. Finance income and costs

Disclosed in profit or loss of the period:

	1 Jan 2015 – 31 Dec 2015	1 Jan 2014 – 31 Dec 2014
Interest income	994	718
Net foreign exchange gains (non-operating)	127	11
Gains on forward contracts	394	685
Other financial income	667	-
Finance income	2,182	1,414
Interest expense	(8,345)	(15,360)
Losses on forward contracts	-	(493)
Loss on disposal of a subsidiary	(688)	(116)
Investments revaluation	-	(135)
Costs related to the acquisition of a subsidiary	(1,072)	-
Other finance costs	(2,927)	(229)
Finance costs	(13,032)	(16,333)
Net finance costs	**(10,850)**	**(14,919)**

In 2015, other finance costs of PLN 2,927 thousand include charges for currency options of PLN 2,572 thousand.

On 30 April 2015, Pfleiderer Grajewo S.A. disposed of shares of its subsidiary Grajewo OOO. The income on share disposal amounted to 4 PLN (1 EUR) and the loss on sale of subsidiary amounted to PLN 688 thousand and was included in profit and loss of current period.

11. Expenses by nature

	1 Jan 2015– 31 Dec 2015	1 Jan 2014– 31 Dec 2014
Raw materials and consumables used	886,038	896,804
Depreciation and amortisation	64,393	53,547
Services	183,698	166,323
Taxes and charges	17,021	15,939
Employee benefit expense (note 9)	115,753	113,728
Cost of merchandise and materials sold	132,935	132,764
Other costs	16,832	18,840
Total costs	**1,416,670**	**1,397,945**
Change in inventories of finished goods and accruals and deferrals	17,164	(8,107)
Work performed by entity and capitalised	(2,918)	(2,606)
Total operating expenses	**1,430,916**	**1,387,232**
including:		
Distribution expenses	116,553	111,659
General and administrative expenses	63,025	55,401
Cost of sales	**1,251,338**	**1,220,172**

(all amounts in PLN thousand)

12. Income tax expense

	Note	1 Jan 2015– 31 Dec 2015	31 Jan 2014– 31 Dec 2014
Income tax expense			
Current portion of income tax		33,138	31,475
Tax exemption under government grants		(6,154)	(7,953)
		26,984	23,522
Deferred income tax			
Relating to origination and reversal of temporary differences		(574)	(2,907)
Use of tax loss carryforward asset		(61)	4,143
	18	(635)	1,236
Tax expense recognised in the consolidated income statement		26,349	24,758

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

		1 Jan 2015– 31 Dec 2015		1 Jan 2014– 31 Dec 2014
Profit before tax		**138,486**		**128,014**
Tax at domestic rate	19.00%	26,312	19.00%	24,322
Effect of foreign tax rates	0.00%	-	0.00%	1
Recognition of deferred tax assets/deferred tax liability previously unrecognized	(0.12%)	(166)	0.25%	323
Non-tax-deductible expenses – permanent differences	0.77%	1,067	0.34%	430
Non-taxable income – permanent differences	(0.63%)	(864)	(0.25%)	(318)
Effect on income tax	**0.02%**	**37**	**0.34%**	**436**
Income tax at effective tax rate	19.02%	26,349	19.34%	24,758
Income tax disclosed in the consolidated income statement		**26,349**		**24,758**

(all amounts in PLN thousand)

13. Property, plant and equipment

	Land Buildings	Plant and equipment	Other	Tangible assets under construction	Total
Gross value					
1 Jan 2014	353,103	893,986	30,415	27,622	1,305,126
Increases	-	-	-	113,660	113,660
Disposals	-	14,511	1,564	-	16,075
Transfers	11,428	93,066	8,699	(115,379)	(2,186)
Reclassification of property, plant and equipment	-	(2,509)	-	-	(2,509)
Effect of exchange differences on translating subsidiaries	-	-	(29)	-	(29)
31 Dec 2014	**364,531**	**970,032**	**37,521**	**25,903**	**1,397,987**
1 Jan 2015	364,531	970,032	37,521	25,903	1,397,987
Increases	-	-	-	85,750	85,750
Disposals	268	21,899	4,785	-	26,952
Transfers	11,087	57,570	3,594	(75,228)	(2,977)
Reclassification of property, plant and equipment	-	(531)	-	-	(531)
Effect of exchange differences on translating subsidiaries	-	-	-	-	-
31 Dec 2015	**375,350**	**1,005,172**	**36,330**	**36,425**	**1,453,277**

(all amounts in PLN thousand)

	Land Buildings	Plant and equipment	Other	Tangible assets under construction	Total
Accumulated depreciation and impairment losses					
1 Jan 2014	140,602	517,377	23,310	-	681,289
Depreciation	9,891	39,495	3,033	-	52,419
Disposals	-	13,309	1,425	-	14,734
Effect of exchange differences on translating subsidiaries	-	-	(6)	-	(6)
31 Dec 2014	**150,493**	**543,563**	**24,912**	**-**	**718,968**
1 Jan 2015	150,493	543,563	24,912	-	718,968
Depreciation	10,397	48,593	3,842	-	62,832
Disposals	227	21,477	4,726	-	26,430
Reclassification of property, plant and equipment	-	(531)	-	-	(531)
Effect of exchange differences on translating subsidiaries	-	-	-	-	-
31 Dec 2015	**160,663**	**570,148**	**24,028**	**-**	**754,839**
Net value					
31 Dec 2014	**214,038**	**426,469**	**12,609**	**25,903**	**679,019**
31 Dec 2015	**214,687**	**435,024**	**12,302**	**36,425**	**698,438**

(all amounts in PLN thousand)

Security

As at 31 December 2015, properties with a carrying amount of PLN 350,675 thousand were subject to a registered debenture that forms security for bank loans (as at 31 December 2014: PLN 353,588 thousand).

Leased plant and equipment

As at 31 December 2015 and 31 December 2014, the Group held no property, plant and equipment under finance lease agreements.

Property, plant and equipment under construction

Investment projects

The Group continues a long-term investment programme designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity. In 2015, the capital expenditure amounted PLN 114,147 thousand (including advance payments).

Impairment of non-financial non-current assets

In 2015 Management did not identify any impairment indicators for its cash generating units: Pfleiderer Prospan S.A., Silekol Sp. z o.o., and Jura Sp. z o.o. However, due to a risk of significant reduction in sales volume to a significant client, management identified impairment indicators for Pfleiderer MDF Sp. z o.o. in 2015 and therefore performed an impairment test.

The recoverable amount of property, plant and equipment was determined based on the value in use. The calculation was performed based on cash flow projections adopted in budgets approved by the Management Board.

The key assumptions used to calculate the unit's value in use were as follows:

- terminal growth rate beyond the five-year period covered by the budget – 2.5%;
- discount rate – 9.1%.

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 was a pre-tax measure estimated based on the weighted average cost of capital, with a possible debt leveraging (27%) at a market interests rate 5%. The projected cash flows were derived from the budgets for the years until 2020 approved by the Management Board.

The test did not reveal any impairment of non-current assets as at the end of 2015.

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

The sensitivity analysis revealed that recoverable amount will be equal to the carrying amount if any of the assumptions listed below changes individually assuming that other assumptions remain unchanged:

- decrease of EBITDA per year by 30%;
- increase of working capital by PLN 22,000 thousand per year;
- discount rate increase by 6.25 p.p.

(all amounts in PLN thousand)

14. Intangible assets

Gross value	Licences, computer software and other
1 Jan 2014	24,144
Transfers	2,186
31 Dec 2014	**26,330**
1 Jan 2015	26,330
Transfers	2,977
31 Dec 2015	**29,307**
Accumulated amortisation and impairment losses	
1 Jan 2014	22,537
Amortisation	1,128
31 Dec 2014	**23,665**
1 Jan 2015	23,665
Amortisation	1,561
31 Dec 2015	**25,226**
Net value	
31 Dec 2014	**2,665**
31 Dec 2015	**4,081**

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

15. Investments in jointly controlled entities

	Country	Carrying value of shares		Ownership interest	
		31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Blitz 11-446 GmbH	Germany	**52**	**52**	50%	50%

(all amounts in PLN thousand)

Key financial data of jointly controlled entity:

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit (Loss)
1 Jan – 31 Dec 2015					
Blitz 11-446 GmbH	1 698	129 280	(127 582)	-	60*
	1 698	**129 280**	**(127 582)**	**-**	**60**
1 Jan – 31 Dec 2014					
Blitz 11-446 GmbH	1 638	129 303	(127 665)	-	(1 129)*
	1 638	**129 303**	**(127 665)**	**-**	**(1 129)**

*As at 31 December 2015, the Group was not obliged to cover losses in the jointly controlled entity.

16. 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
Total:	75	75

Loans granted	31 Dec 2015	31 Dec 2014
Long-term portion of loans	-	5,000
Current portion of loans	3 272	2,347
Total:	**3 272**	**7,347**

As at 31 December 2015 the Group had receivables from loans granted to 3 Spare Sp. z o.o in the amount of PLN 3,272 thousand. The amount was comprised of loan of PLN 3.000 thousand and interest receivables for 2015 of PLN 272 thousand. The loan repayment date is 31 December 2016, therefore, in the consolidated statement of financial position the Group presents the amount of PLN 3,272 thousand as other short-term financial assets.

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

17. Investment property

As at 31 December 2015, the Group disclosed investment property in the amount of PLN 3,860 thousand (31 December 2014: PLN 3,860 thousand).

Investment property comprises of land held in perpetual usufruct, located at Bolesławiecka Street in Wieruszów, with a total area of 2.7835 ha, which as at the end of 2015 was not used for production purposes, sale of goods, rendering of services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

Until 22 November 2010, it had been classified as an agricultural land but according to the construction plan of the S-8 express way in the immediate vicinity of the property, the Group's Management Board treats the property as a potential source of future rental income and expects a considerable capital increase of the property.

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property each year.

As at 31 December 2015, according to the valuer's opinion, market and economic conditions have not changed significantly in comparison to valuation performed as at 31 December 2014. Therefore, the fair value of investment property determined by external valuers remained at the same level and amounted to PLN 3,860 thousand (categorised as a Level 2 fair value).

Changes in fair values are recognised as gains in profit or loss and included in 'other income'.

As at the end of the each financial year, the investment property was not used as a security for bank loans and other borrowings.

(all amounts in PLN thousand)

18. Deferred income tax asset and liability

	Assets	Liabilities	Net	Assets	Liabilities	Net
	31 Dec 2015	31 Dec 2015	31 Dec 2015	31 Dec 2014	31 Dec 2014	31 Dec 2014
Non-current assets						
Property, plant and equipment	20,970	24,127	(3,157)	18,158	19,115	(957)
Investment property	-	513	(513)	-	513	(513)
Loans advanced		7	(7)	-	7	(7)
Other non-current financial assets	4	-	4	4	-	4
Current assets						
Inventories	1,435	-	1,435	1,682	-	1,682
Other current financial assets	-	86	(86)	-	158	(158)
Trade and other receivables	985	282	703	1,315	4,168	(2,853)
Cash and cash equivalents	13	11	2	84	-	84
Non-current liabilities						
Provisions	163	-	163	155	-	155
Employee benefit obligations	1,836	-	1,836	1,890	-	1,890
Current liabilities						
Trade and other payables	1,730	71	1,659	2,185	191	1,994
Employee benefit obligations	2,251	-	2,251	2,395	-	2,395
Total tax loss brought forward	61	-	61	-	-	-
Deferred income tax asset/liability	29,448	25,097	4,351	27,868	24,152	3,716
Deferred income tax asset and liability offset	(9,110)	(9,110)		(10,478)	(10,478)	
Deferred income tax asset/liability in the statement of financial position	**20,338**	**15,987**		**17,390**	**13,674**	

(all amounts in PLN thousand)

Changes related to temporary differences during the reporting period:

	1 Jan 2014	Recognised in profit or loss	Recognised in equity	31 Dec 2014	1 Jan 2015	Recognised in profit or loss	Recognised in equity	31 Dec 2015
Non-current assets								
Property, plant and equipment	(2,292)	1,335	-	(957)	(957)	(2,200)	-	(3,157)
Investment property	(539)	26	-	(513)	(513)	-	-	(513)
Loans advanced	-	(7)	-	(7)	(7)	-	-	(7)
Other non-current financial assets	(3,542)	3,546	-	4	4	-	-	4
Current assets								
Inventories	1,323	359	-	1,682	1,682	(247)	-	1,435
Other current financial assets	(73)	(85)	-	(158)	(158)	72	-	(86)
Trade and other receivables	(422)	(2,431)	-	(2,853)	(2,853)	3,556	-	703
Cash and cash equivalents	2	82	-	84	84	(82)	-	2
Investments in related entities	-	-	-	-	-	-	-	-
Derivatives	(19)	19	-	-	-	-	-	-
Non-current liabilities								
Provisions	149	6	-	155	155	8	-	163
Employee benefit obligations	1,353	537	-	1,890	1,890	(54)	-	1,836
Current liabilities								
Trade and other payables	2,471	(477)	-	1,994	1,994	(335)	-	1,659
Provisions	15	(15)	-	-	-	-	-	-
Employee benefit obligations	2,383	12	-	2,395	2,395	(144)	-	2,251
Total tax loss brought forward	4,143	(4,143)	-	-	-	61	-	61
	4,952	**(1,236)**	-	**3,716**	**3,716**	**635**	-	**4,351**
Change in temporary differences recognised as profit or loss for period		**(1,236)**				**635**		

19. Government grants receivable and deferred income under government grants

The Group has been awarded two government grants concerning economic assistance received under the following titles:

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

   The grant consisted of PLN 22,202 thousand to cover capital expenditures and PLN 849 thousand to cover two-year labour costs following the creation of 55 new jobs. Total amount was received by the Group in 2007 and recognised as deferred income. The amount of PLN 22,202 thousand is settled to other income over the useful life of property, plant and equipment to which the grant relates.

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

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

   Under the permit to conduct business activities in the Suwałki Special Economic Zone the company is eligible to receive public assistance. A corporate income tax exemption is a form of additional public assistance. The permit was granted until 1 September 2016, following the fulfilment of certain conditions.

   Minister of Economy in the decision from 7 November 2014 deemed Pfleiderer MDF Sp. z o.o.'s permit to conduct business activities in SSEZ valid until the date on which the SSEZ is to discontinue its operations (currently 31 December 2026). The permit's conditions include the requirement to incur capital expenditures of at least EUR 78 million by 31 December 2009, to hire at least 120 employees by 1 January 2010, to maintain the employment level until 31 December 2014, and to satisfy other requirements imposed by the laws governing the SSSE. As at the end of 2015 and 2014 the company met all the significant requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditures of up to EUR 50 million, 50% of half of the amount of expenditures in excess of EUR 50 million and up to EUR 100 million, and 34% of half of the amount of expenditure in excess of EUR 100 million.

   Therefore, the Group recognised government grant assets and deferred income (current and non-current). The Group utilises its government grant assets by the amount used in the form of the corporate income tax exemption. In 2015, the Group used PLN 6,154 thousand of government grants.

   Deferred income under government grants is settled based on the weighted average depreciation rate applicable to the property, plant and equipment for which the government grants were obtained.

The table below presents the structure of the deferred income under government grants and the amounts released to other income in 2015 and 2014.

(all amounts in PLN thousand)

Type of public assistance	Investment grant	Corporate income tax exemption	Total
1 Jan 2014	15,505	15,184	30,689
Accretion to other income	(822)	(690)	(1,512)
Reassessment of government grants	-	62,662	62,662
31 Dec 2014	**14,683**	**77,156**	**91,839**
1 Jan 2015	14,683	77,156	91,839
Accretion to other income	(820)	(3,674)	(4,494)
Reassessment of government grants	-	31,903	31,903
31 Dec 2015	**13,863**	**105,385**	**119,248**
Non-current portion	13,043	100,116	113,159
Current portion	820	5,269	6,089
Total	**13,863**	**105,385**	**119,248**

As at 31 December 2015, the Group performed an analysis and reassessment of the amount of government grants. Following the analysis, the Group revised the carrying amount of government grants in the form of expected corporate income tax exemption. In 2015 the value of government grant assets and liabilities increased by PLN 31,903 thousand, which resulted from a change in the estimated corporate income tax, which will not be paid based on the exemption for the future period of the Group's operations in the SSEZ. The amount was estimated based on the updated budget projections approved by the Management Board in each of the year. Management Board adopted budget assumptions, which are a basis for the estimation of the government grants amount based on historical results and expectations as to the market developments. The growth rate does not exceed the long-term average rate for the manufacturing sector in Poland. In compliance with the EU IFRS, the estimated amount of government grants is not discounted.

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

Government grant receivables

1 Jan 2014	**14 627**
Utilisation	(7 953)
Reassesment of goverment grants	62 662
31 Dec 2014	**69 336**
1 Jan 2015	**69 336**
Utilisation	(6 154)
Reassesment of goverment grants	31 903
31 Dec 2015	**95 085**

(all amounts in PLN thousand)

20. Inventories

	31 Dec 2015	31 Dec 2014
Materials and merchandise	98,557	106,437
Semi-finished products and work in progress	329	142
Finished goods	57,144	74,104
Advances for deliveries	179	333
Total	**156,209**	**181,016**

Inventories are disclosed in the consolidated statement of financial position at net realisable value, i.e. net of write-downs of PLN 7,610 thousand (31 December 2014: PLN 8,938 thousand).

As at 31 December 2015 inventory was not used as a security for bank loans and other borrowings.

21. Trade and other receivables

	31 Dec 2015	31 Dec 2014
Trade receivables	41,350	41,719
Trade receivables from related parties	41,766	36,724
Current prepayments and accrued income	7,730	6,418
Current prepayments for financing costs	7,681	-
Current VAT receivables	19,413	16,422
Receivables related to capital increase	361,848	-
Other receivables	2,392	21,625
Total	**482,180**	**122,908**

Other receivables, in amount of PLN 2,392 thousand in 2015 include among others receivables regarding granted loans from Special Funds. The amount of PLN 21,625 thousand of other receivables as at 31 December 2014 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 at 31 December 2014 was PLN 19,180 thousand.

As at 31 December 2015, trade receivables were reduced by impairment losses of PLN 7,241 thousand (31 December 2014: PLN 9,259 thousand).

Trade and other receivables include the following financial receivables:

	Note	31 Dec 2015	31 Dec 2014
Trade receivables		41,350	41,719
Trade receivables from related parties		41,766	36,724
Other receivables		361,848	21,625
Prepayments for financing costs		7,681	-
Total	**28**	**452,645**	**100,068**

(all amounts in PLN thousand)

Factoring of receivables

The Group is a party to factoring agreements which are typically executed for periods not less than one year. These agreements are regularly extended for successive periods.

As at 31 December 2015, the Company and its subsidiaries: Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o. were parties to factoring agreements. The Group is a party to factoring agreements without recourse rights. The factoring agreements with BZ WBK Faktor Sp. z o.o. are concluded for an indefinite period, while the term of the agreements with PEKAO Factoring Sp. z o.o. is definite. Agreements are automatically rolled by another 12 months if neither party notifies the other party of its intention not to extend an agreement, provided that such notice will be sent no later than 2 months before the expiry of a given agreement.

As at 31 December 2015, the terms of and credit limits under the agreements were as follows:

Factoree:	Expiry date:	Factor:	Limit:
Pfleiderer Grajewo S.A.	31 March 2016	PEKAO Factoring Sp. z o.o.	PLN 100,000 thousand
Pfleiderer MDF Sp. z o.o.	28 February 2016	PEKAO Factoring Sp. z o.o.	PLN 50,000 thousand
Pfleiderer Prospan S.A.	indefinite term	BZ WBK Faktor Sp. z o.o.	PLN 100,000 thousand
Silekol Sp. z o.o.	indefinite term	BZ WBK Faktor Sp. z o.o.	PLN 15,000 thousand

Under the factoring agreements, the factor finances 100% of the receivables' nominal value, while the cost of financing WIBOR (EURIBOR) + margin is paid by the Group. 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 Group.

Due to the fact that the Group 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 Group's financial statements. The remaining amount of the receivables (90%) was derecognized from the Group's statement of financial position.

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

	31 Dec 2015	31 Dec 2014
Total trade receivables	225,553	215,191
Receivables derecognised from the statement of financial position	(142,437)	(136,748)
Net trade receivables	**83,116**	**78,443**

	31 Dec 2015	31 Dec 2014
Factoring receivables as at the end of the reporting period	158,263	151,946
Derecognised receivables (90%)	142,437	136,751
Receivables recognised in the statement of financial position up to the amount of continuous involvement (10%)	**15,826**	**15,195**

Settlement of factoring services	31 Dec 2015	31 Dec 2014
Factoring receivables as at the end of the reporting period	158,263	151,946
Payments made by customers, not passed to the factor	44,501	28,692
Other settlements with the factor – cash in transit	(112)	(297)
Payments received concerning receivables derecognised from the statement of financial position	(142,437)	(137,530)
Factoring liabilities as at the end of the reporting period	**60,215**	**42,811**

(all amounts in PLN thousand)

22. 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
Par value per share (PLN)	0.33	0.33

All shares issued by the Company are ordinary shares. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares entitle to the same rights to share in the distribution, if any, of the Company's assets.

Pfleiderer Grajewo S.A. is a subsidiary of Pfleiderer Service GmbH, which holds 65.11% of the shares in Company's ordinary capital. In the period from 1 January 2015 to 31 December 2015, 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.

a. 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.

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

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 "Receivables related to capital increase" (note 21). 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 by the Company (note 35), 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 million as on the shares acquisition date.

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

b. Share premium

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

c. 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) and any additional appropriations from net profits.

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

d. Revaluation reserve

Revaluation reserve includes the effects of the fair value measurement of land held in perpetual usufruct by a subsidiary Pfleiderer Prospan S.A. upon reclassification from property, plant and equipment to investment property.

Until 22 November 2010, the land was classified as agriculture land, and its fair value was estimated by an independent valuer at PLN 1,159 thousand. The land was initially recognized in the statement of financial position in the amount of PLN 540 thousand. The surplus between the book value and the fair value of land in the amount of PLN 619 thousand Group recognized in the revaluation reserve, which as at 31 December 2015, amounted to PLN 619 thousand.

e. Exchange differences on translating foreign operations

Foreign exchange differences on translating subsidiaries include all foreign exchange gains/(losses) of the translation of the financial statements of the foreign subsidiary Grajewo OOO into PLN. As at 31 December 2015 exchange differences on translating foreign operations amounted to PLN 0.

f. Dividends

The Company did not pay any dividend in 2015.

23. Earnings per share

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding during the twelve months.

Net profit of the owners of the Company attributable to ordinary shares for the financial year ended 31 December 2015 amounted to PLN 112,137 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2014 was PLN 103,256 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:

(all amounts in PLN thousand)

	1 Jan 2015–31 Dec 2015	1 Jan 2014–31 Dec 2014
Number of ordinary shares as at 1 January	49,624,000	49,624,000
Number of ordinary 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

	1 Jan2015 – 31 Dec 2015	1 Jan 2014– 31 Dec 2014
Basic and diluted earnings per share	2.26	2.08

24. Borrowings and other debt instruments

	31 Dec 2015	31 Dec 2014
Non-current liabilities		
Non-current portion of interest-bearing bank borrowings	40,926	63,696
Total	**40,926**	**63,696**
Current liabilities		
Overdraft facilities repayable in less than 12 months from the end of the reporting period	-	22,955
Current portion of interest-bearing bank borrowings	21,700	21,700
Total	**21,700**	**44,655**

(all amounts in PLN thousand)

Bank loans

The Group has credit loans available in the form of overdraft facility and short- and long-term bank loans for special-purposes. As at 31 December 2015, liabilities under bank borrowings were PLN 62,626 thousand (as at 31 December 2014: PLN 108 351 thousand) . In the period from 1 January 2015 to 31 December 2015, Pfleiderer Grajewo S.A. and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. o.o. repaid all of their overdraft facilities of 31 December 2014 in the amount of PLN 6,672 thousand and multipurpose credit facilities in amount of PLN 5,098 thousand, respectively. Pfleiderer MDF Sp. z o.o., a subsidiary, repaid its overdraft in the amount of PLN 11,185 thousand and four installments of the investment loan amounting to EUR 22,770 thousand.

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

Terms and repayment schedules of the bank borrowings as at 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	75,000	-	-	2,373	-
Millennium S.A.	PLN	1M WIBOR + margin	25 Jun 2016	mortgage	25,000	-	-	2,582	-
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	45,000	-	-	-	-
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	25 Jun 2016	mortgage	15,000	-	-	2,396	-
Bank Ochrony Środowiska S.A.	PLN	1M WIBOR + margin	14 Oct 2015	mortgage	-	-	-	2,725	-
PKO Bank Polski S.A.	PLN	1M WIBOR + margin	31 May 2018	mortgage, registered pledge, assignments	54,000	-	-	11,185	-
PKO Bank Polski S.A.	PLN	3M WIBOR + margin	15 Oct 2018	mortgage, registered pledge, assignments	-	21,700	40,926	21,700	63,696
					314,000	**21,700**	**40,926**	**44,655**	**63,696**

(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 with four banks: Bank Millennium S.A., Alior Bank S.A.. Bank Zachodni WBK S.A. and Bank Ochrony Środowiska S.A. On 14 October 2015, the agreement with Bank Ochrony Środowiska was terminated on mutual consent. Remaining agreements are still in force. The total credit limit available under the facilities provided by those three banks amounts to PLN 260,000 thousand.

Credit agreements for special purposes:

Investment facility agreement with PKO BP S.A.

On 15 January 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 235,022 thousand investment facility agreement with PKO BP S.A. It is a special-purpose facility obtained to finance the construction of the MDF board production plant in Grajewo.

As at 31 December 2015, the Group's debt outstanding under this facility was PLN 62,626 thousand (31 December 2014: PLN 85,396 thousand).

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

On 29 August 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 65,000 thousand multi-purpose facility agreement with PKO BP S.A. Under the amendment, the term of the facility was extended until 31 May 2018. The amount of the multi-purpose facility loan was reduced over the three following years starting from 2011 and as the end of 2015 amounted PLN 54,000 thousand.

As at 31 December 2015, the amount outstanding under the facility was PLN 0,0 thousand.

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 amounts in PLN thousand)

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.

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.

Liabilities under borrowings from related parties

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

25. Employee benefit obligations

	31 Dec 2015	31 Dec 2014
Salaries and wages	4,294	3,981
Personal income tax	1,665	1,516
Social security	4,978	4,644
Social Benefits Fund	1,729	1,678
Retirement benefit obligations	10,497	11,549
Unused holiday accrual	3,719	3,949
Employee bonus accrual	6,764	7,018
Total	**33,646**	**34,335**
Non-current portion	9,667	10,986
Current portion	23,979	23,349
	33,646	**34,335**

Retirement bonus and disability severance payment obligations

Under the remuneration plans employees of the Group 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 in the financial year ended 31 December 2015:

- Data on staff turnover was derived from the statistics of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Silekol Sp. z o.o., Pfleiderer MDF Sp. z o.o., and Jura Polska Sp. z o.o., as well as from the statistics available to 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.
- 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 Group'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 calculated 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 retirement age for men is 67 (based on the transitional regulations of 6 June 2012).
- 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 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 Group recognises a provision for quarterly and annual bonuses paid to the Group employees. Bonuses related to specific completed tasks for which employees will receive cash remuneration in the future.

(all amounts in PLN thousand)

26. Provisions

	Provisions for employee claims
1 Jan 2015	**815**
Increase	41
Reversal	-
31 Dec 2015	**856**
Non-current portion	856
Current portion	-
	856

	Provisions for employee claims
1 Jan 2014	**786**
Increase	29
Reversal	-
31 Dec 2014	**815**
Non-current portion	815
Current portion	-
	815

Provisions for employee claims

Provisions for employee claims were recognised for the costs related to redemption of loans granted to employees in order to finance purchase of shares which exceeded the carrying amount of these loans.

The provisions will be used from 2034.

27. Trade and other payables

	31 Dec 2015	31 Dec 2014
Trade payables	138,317	125,260
Trade payables to related parties	7,788	4,886
Liabilities under factoring agreements	60,215	42,811
VAT liabilities	-	809
Liabilities from capital expenditures	14,949	17 876
Liabilities from capital expenditures from related parties	2,035	498
Liabilities from derivatives (forward transactions)	51	394
Prepaid deliveries	1,757	2,096
Liabilities related to equity increase	24,458	-
Other liabilities	16,820	11,659
Total	**266,390**	**206,289**

For details on liabilities under factoring agreements, see Note 21. Other liabilities are related to accrued expenses and deferred income.

Trade and other payables include the following financial liabilities:

	31 Dec 2015	31 Dec 2014
Trade payables	138,317	125,260
Trade payables to related parties	7,788	4,886
Liabilities under factoring agreements	60,215	42,811
Liabilities from capital expenditures	14,949	17,876
Liabilities from capital expenditures from related parties	2,035	498
Liabilities from derivatives (forward transactions)	51	394
Other liabilities	39,594	10,274
Total	**262,949**	**201,999**

28. Financial instruments

Objectives and methods of financial risk management applied by the Group

The Group's Management has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's financial risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities.

The Group'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 Group'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 Group'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.

As far as market valuation of the instruments is concerned, the Group 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 Group monitors its currency position in order to project its cash flows. To manage the currency risk, the Group 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 Group from insolvency. This is achieved through regular projection of debt levels for a five-year horizon, and arrangement of appropriate financing.

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

(all amounts in PLN thousand)

a. Credit risk

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

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

Credit risk associated with bank deposits is assessed by the Group 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 Group does not require any security on customer assets.

In order to reduce the risk of customers' insolvency, the Group 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 Group 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 Group's deductibles in receivables insured, based on detailed analysis of the accounts receivable.

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

The total credit risk exposure was as follows:

	31 Dec 2015	31 Dec 2014
Loans advanced and receivables	88,780	107,415
Cash and cash equivalents	88,346	18,512
Receivables from equity increase	361,848	-
Total	**538,974**	**125,927**

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

	Gross value 31 Dec 2015	Impairment loss 31 Dec 2015
Not overdue	61,620	53
Overdue by:		
0–180 days	21,815	427
180–360 days	266	156
More than 360 days	6,658	6,605
Total	**90,359**	**7,241**

(all amounts in PLN thousand)

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

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 – 31 Dec 2015	**1 Jan – 31 Dec 2014**
Balance at beginning of the period	9,259	10,647
Change in impairment losses	(2,018)	(1,388)
Balance at end of the period	**7,241**	**9,259**

b. Interest rate risk

The Group holds cash at banks and 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 periods, the Group did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

Variable-rate financial instruments	**31 Dec 2015**	**31 Dec 2014**
Financial assets	3,272	7,347
Financial liabilities	62,626	108,351

Sensitivity analysis of cash flows for variable-rate financial instruments

The below interest rates variations were calculated based on observations of interest rates fluctuations in 2015 and 2014.

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

	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	(770)	770	(1,763)	1,763
Effect on equity	-	-	-	-

Sensitivity analysis of fair value of fixed-rate financial instruments

The Group 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.

c. Currency risk

The Group 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 and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is primarily the Polish zloty (PLN). The main currencies in which foreign currency transactions are primarily denominated are euro, US dollars and pound sterling (GBP). However, foreign exchange gains or losses resulting from exchange rate fluctuations mostly offset each other (natural hedging).

The Group also incurs capital expenditures in foreign currencies. The Group 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 Group's business transactions consist in the sale of EUR at a pre-determined rate. This helps to secure margins on export sales and to mitigate the risk of adverse changes of the margins due to appreciation of the Polish zloty.

In 2015, Pfleiderer Grajewo S.A. realised 29 forward transactions in the amount of PLN 55,780 thousand. 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). Additionally, as at 31 December 2015 the Company 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 lfrom 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).

In addition, in 2015 Silekol Sp. z o.o., a subsidiary, realised 15 forward transactions in the total amounts of PLN 22,750 thousand. As at 31 December 2015 Silekol Sp. z o.o. held 4 open EUR/PLN FX forward contracts for the sale of a total of EUR 8,000 thousand with settlement time limit before 12 April 2016. As at 31 December 2015 the forward contracts were measured at PLN 195 thousand (fair value - Level 2).

As at 31 December 2015 Pfleiderer MDF Sp. z o.o., a subsidiary, held 3 open EUR/PLN FX forward contracts for the sale of a total of EUR 3,000 thousand with settlement time limit before the end of May 2016. As at 31 December 2015 the forward contracts were measured at PLN 96 thousand (fair value - Level 2).

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

As at 31 December 2015 the other Group entities did not have any other derivative contracts.

The Group'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	42,402	144	-
Trade receivables	56,281	(60)	-
Trade payables	(50,843)	(23)	(18)
Balance-sheet exposure, gross	**47,840**	**61**	**(18)**
Transactions in derivative instruments:			
-hedging the transaction of acquisition of shares in Pfleiderer GmbH	508,312	-	-
- hedging of expected sales transactions	(288,930)	-	-
Net exposure under financial instruments	**267,222**	**61**	**(18)**

31 Dec 2014:	EUR	USD	RON
Cash and cash equivalents	16,061	27	-
Trade receivables	49,075	-	-
Other receivables - escrow	19,180	-	-
Trade payables	(44,657)	-	(18)
Balance-sheet exposure, gross	**39,659**	**27**	**(18)**
Transactions in derivative instruments:			
- hedging of expected sales transactions	(302,111)	-	-
Net exposure under financial instruments	**(262,452)**	**27**	**(18)**

Sensitivity analysis for 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:	+5%	-5%
EUR	2,392	(2,392)
USD	3	(3)
RON	(1)	1
Effect on profit/(loss) before tax	2,394	(2,394)
Effect on equity	8,885	(8,885)

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

(all amounts in PLN thousand)

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
RON	0.9421	0.9510

(all amounts in PLN thousand)

d. Liquidity risk

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	22,955	23,296	12,026	11,270	-	-	-
Liabilities under borrowings and other debt instruments	85,396	92,741	11,924	12,488	24,234	44,095	-
Trade and other payables	201,999	201,999	201,999	-	-	-	-
	310,350	**318,036**	**225,949**	**23,758**	**24,234**	**44,095**	-

31 Dec 2015	Carrying amount	Contractual cash flows	Below 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities under borrowings and other debt instruments	62,626	66,227	11,564	11,885	23,084	19,694	-
Trade and other payables	262,949	262,949	262,949	-	-	-	-
	325,575	**329,176**	**274,513**	**11,885**	**23,084**	**19,694**	-

(all amounts in PLN thousand)

As at 31 December 2015, the Group's debt outstanding under the bank borrowings was PLN 62,626 thousand, unused credit facilities amounted to PLN 299,948 thousand. The Group also held cash of PLN 88,346 thousand.

e. 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.

f. Capital management

The Group defines equity as the carrying amount of the equity including non-controlling interests.

The key ratio used by the Group to monitor equity is the ratio of *equity to total assets*. At the end of 2015, the ratio increased from 62.15% to 70.30%.

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

	31 Dec 2015	31 Dec 2014
Equity	1,190,262	756,370
Total assets	1,693,107	1,216,993
Ratio:		
Equity / *Total assets*	**70.30%**	**62.15%**

29. Operating lease agreements

The Group leases a number of production assets under operating leases. The leases typically run for a period of 3 years and the existing agreements will expire in 2016-2018. Monthly lease payments are charged to the reporting period's profit or loss using the straight-line method.

The Group also 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 Group under the operating lease agreements in 2015 were PLN 6,837 thousand (in 2014: PLN 7,295 thousand).

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

	31 Dec 2015	31 Dec 2014
From 1 to 5 years	909	1,499
Up to one year	1,430	7,095
Total	**2,339**	**8,594**

(all amounts in PLN thousand)

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

As at 31 December 2015, the Group had contractual commitments to acquire property, plant and equipment and intangible assets. The commitments were incurred under agreements concluded by the Group as part of its investment activities. These commitments relate mainly to the implementation of investment package in Pfleiderer MDF Sp. z o.o. regarding the purchase of four machines (painting line, sizing machine, grinder and packaging line) as well as a line for wrapping tops and a biomass boiler.

	31 Dec 2015	31 Dec 2014
Commitments to acquire property, plant and equipment	36,114	17,291
- *fixed assets*	*36,105*	*17,062*
- *intangible assets*	*9*	*229*

31. Contingent liabilities

As at the end of 2015 the Group 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 consolidated 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 Group in the consolidated financial statements.

(all amounts in PLN thousand)

32. Material related-party transactions

In the 2015 financial year, the Group executed the following commercial transactions with related parties which are not Group entities:

	1 Jan 2015 – 31 Dec 2015							
Podmiot	**Sales of goods (finished or unfinished)**	**Rendering services**	**Purchases of goods (finished or unfinished)**	**Transfers under licence agreements**	**Receiving of services**	**Other expenses**	**Acquisition of property and other assets**	**Costs related to obtaining of new financing**
Pfleiderer GmbH	-	13	316	4,205	300	-	18	7,064
Pfleiderer Holzwerkstoffe GmbH & Co. KG	4,489	126	16,536	-	745	31	1,610	-
Pfleiderer Neumarkt GmbH	58,072	-	-	-	-	-	85	-
Pfleiderer Leutkirch GmbH	7,768	-	32	-	22	-	57	-
Pfleiderer Gütersloh GmbH	26,192	-	-	-	753	-	104	-
Jura Speditions GmbH	-	2,384	4	-	5,624	16	9	-
Heller Holz GmbH	-	-	-	-	-	-	9	-
Pfleiderer Arnsberg GmbH	7,625	1	-	-	16	-	104	-
Pfleiderer Baruth GmbH	42,194	-	-	-	597	-	29	-
Pfleiderer B.V.	-	-	-	-	13	-	-	-
Pfleiderer Industrie Limited	-	-	-	-	6	-	-	-
Suma	**146,340**	**2,524**	**16,888**	**4,205**	**8,076**	**47**	**2,025**	**7,064**

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

(all amounts in PLN thousand)

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

	01 Jan 2014 – 31 Dec 2014						
Entity	**Sales of goods (finished or unfinished)**	**Rendering services**	**Other income**	**Purchases of goods (finished or unfinished)**	**Transfers under licence agreements**	**Receiving of services**	**Acquisition of property and other assets**
Pfleiderer Service GmbH	-	-	-	-	-	49	-
Pfleiderer GmbH	-	-	-	-	4,163	799	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	2,919	-	145	19,551	-	270	21
Pfleiderer Neumarkt GmbH	25,081	-	-	-	-	-	-
Pfleiderer Leutkirch GmbH	5,778	-	-	91	-	-	-
Pfleiderer Gütersloh GmbH	20,272	-	-	-	-	731	-
Jura Speditions GmbH	-	32	-	-	-	3,974	-
Pfleiderer Arnsberg GmbH	511	-	-	14	-	-	-
Pfleiderer Baruth GmbH	50,265	-	-	-	-	-	-
Pfleiderer France S.A.S.	-	-	-	-	-	9	-
Pfleiderer B.V.	-	-	-	-	-	16	-
Pfleiderer Industrie Limited	-	-	-	-	-	4	-
Suma	**104,826**	**32**	**145**	**19,656**	**4,163**	**5,852**	**21**

(all amounts in PLN thousand)

Entity	31 December 2015			31 December 2014		
	Balance of trade receivables	**Balance of trade liabilities**	**Balance investment commitments**	**Balance of trade receivables**	**Balance of trade liabilities**	**Balance investment commitments**
Pfleiderer GmbH	-	5,534	19	-	1,265	-
Pfleiderer Holzwerkstoffe GmbH & Co.KG	1,166	1,599	1,617	-	2,922	533
Pfleiderer Neumarkt GmbH	17,463	-	86	8,010	-	-
Pfleiderer Leutkirch GmbH	3,177	-	57	2,386	-	-
Pfleiderer Gütersloh GmbH	5,814	61	105	8,298	52	-
Jura Speditions GmbH	322	593	9	-	647	-
Heller Holz GmbH	-	-	9	-	-	-
Pfleiderer Amsberg GmbH	353	-	104	314	-	-
Pfleiderer Baruth GmbH	13,471	-	29	17,716	-	-
Pfleiderer Industrie Limited	-	1	-	-	-	-
Suma	**41,766**	**7,788**	**2,035**	**36,724**	**4,886**	**533**

(all amounts in PLN thousand)

Key management personnel compensation

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

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

In addition, members of Pfleiderer Grajewo S.A Management Board received the following short - term employee benefits for holding management positions at Pfleiderer Prospan S.A.:

Name	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
Wojciech Gątkiewicz	1 054	962
Rafał Karcz	560	518
Dariusz Tomaszewski	601	554
	2 215	**2,034**

Moreover, in 2015, Mr Rafał Karcz and Mr Dariusz Tomaszewski held management positions in Pfleiderer MDF Sp. z o.o. without receiving any remuneration.

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

As at 31 December 2015, the other members of Company's Management Board had no outstanding loan-related debt towards the Group.

As at the end of 2015 members of the Management 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 2015) - 4,108 Company shares

(all amounts in PLN thousand)

Short-term employee benefits paid to members of Pfleiderer Grajewo S.A. Supervisory Board in the reporting period was as follows:

Name	1 Jan – 31 Dec 2015	1 Jan – 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
	721	**630**

As at the end of each financial year, members of the Supervisory Board of Pfleiderer Grajewo S.A. had no outstanding debt under loans from the Group.

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.

33. Additional information to the consolidated statement of cash flows

Increase/(decrease) in liabilities

	31 Dec 2015	31 Dec 2014
Increase/(decrease) in trade and other payables	60,101	(33,971)
Change in investment liabilities	1,390	(283)
Liabilities under acquisition of subsidiary	(633)	30,322
Liabilities from derivatives	343	(394)
Liabilities from the transactional costs associated with the issuance of shares	(24,458)	-
Liability from arranging of new financing	(7,064)	-
Other	1,917	6 625
Change in liabilities presented in cash flow	**31,596**	**2,299**

34. Acquisition of subsidiary

On 19 January 2016, Pfleiderer Grajewo S.A. acquired from Atlantik SA the only share in Pfleiderer GmbH seated in Neumarkt, Germany, representing 100% of the share capital and authorizing the exercise of 100% of voting rights at the general meeting of shareholders.
The acquisition was an integral part of project "ONE Pfleiderer" aimed at creation a fully integrated Capital Group. The new group structure is presented in the note 35 to this consolidated financial statements.

a) Consideration transferred

The acquisition-date-fair value of the total consideration was PLN 1,162,832 thousand (EUR 261,707 thousand). The consideration was paid as follows:
1) EUR 119,353 thousand –cash payments in amount of EUR 70,968 thousand received from shares issuance, cash payments in form of loan granted to Pfleiderer Grajewo S.A. by Pfleiderer Services GmbH in amount of EUR 43,587 thousand and cash payment from the Company's bank accounts in amount of EUR 4,797 thousand.
2) EUR 7,357 thousand – non-cash settlement, the amount which decreased purchase price and it is a surplus of transaction costs over the limit in amount of EUR 11 Mio.
3) EUR 134,979 thousand- non-cash settlement, acquisition of the claim of Pfleiderer Service GmbH to Atlantik S.A.

b) Acquisition – related costs

The Group incurred acquisition related costs of PLN 14,966 thousand (EUR 3,390 thousand) on legal fees and advisory costs. In the reporting period the Company incurred transaction costs in the amount of PLN 3,643 thousand (EUR 865 thousand) which were recognized as finance costs in the statement of profit or loss and other comprehensive income. The remaining costs of PLN 11,323 thousand (EUR 2,525 thousand) will be incurred after the balance sheet date.

c) Identifiable assets and liabilities assumed
Fair value measured on a provisional basis.

Since the acquisition occurred shortly after the year end the determination of fair values of acquired assets and liabilities has not been finalized yet.

The fair value of the acquired assets and liabilities are on a provisional basis as follows:

	Fair Value (in euro thousand)	*Fair Value (in pln thousand)*
Intangible assets	83,396	371,031
Tangible (fixed) assets	396,012	1,761,857
Inventories	59,920	266,585
Receivables	175,532	780,942
Cash and cash equivalents	65,731	292,437
Other assets (incl. tax receivables)	28,934	128,728
Deferred tax assets	47	210
Total assets	**809,572**	**3,601,790**
Pension provisions	(49,911)	(222,055)
Other provisions	(5,532)	(24,610)
Financial liabilities	(343,661)	(1,528,949)
Trade payables	(65,152)	(289,861)
Other liabilities (incl. inter-company)	(59,219)	(263,464)
Tax liabilities	(9,866)	(43,892)
Deferred tax liabilities	(2,075)	(9,231)
Total liabilities	**(535,416)**	**(2,382,062)**
Deferred tax assets	8,075	35,924
Deferred tax liabilities	(77,457)	(344,604)
Deferred taxes on fair value adjustments	**(69,382)**	**(308,680)**
Total identifiable net assets acquired	**204,774**	**911,048**

d) Goodwill

The Group expects significant synergies through the integration and the alignment of all operating and administrative processes to result in a double-digit savings (in EUR) per year.

Goodwill in the amount of PLN 232,649 thousand (EUR 52,644 thousand) arising from acquisition has been recognized as follows (on a provisional basis):

	in thousand of PLN	**in thousand of EUR**
Consideration transferred	1,162,832	261,707
Realized f/x gains on purchase price	(19,135)	(4,289)
Fair value of identifiable net assets	(911,048)	(204,774)
	232,649	**52,644**

(all amounts in PLN thousand)

35. Events subsequent to the end of the reporting period

Registration of capital from the issue of series E shares

On 19 January 2016, the District Court in Białystok registered the share capital increase of Pfleiderer Grajewo S.A. from the amount of PLN 16,376 thousand to the amount of PLN 21,351 thousand through the issuance of 15,077,007 ordinary shares of series E with a nominal value of PLN 0.33 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 new shares of E series were issued by the Company at an issue price of PLN 24.00 for 1 share.

In connection with the registration of the share capital increase of Pfleiderer Grajewo S.A., the Parent Company and Atlantik S.A. entered on 19 January 2016 into an agreement under which the Company acquired the sole share in Pfleiderer GmbH, with the nominal value of EUR 30,000 thousand, representing 100% of the share capital of Pfleiderer GmbH and authorising the exercise of 100% of voting rights at the general meeting of shareholders of Pfleiderer GmbH.

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

Revolving facility agreement

Moreover, on 19 January 2016, along with the completion of the Capital Group's reorganization, the Parent Company Pfleiderer Grajewo S.A. and the subsidiaries Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. become borrowers under the Revolving Facility Agreement (along with Pfleiderer GmbH and Pfleiderer Holzwerkstoffe GmbH). This is the result of the fulfillment of certain conditions contained in the Amending Agreement of 5 October 2015.

Shareholders

On 21 January 2016 Parent Compnay 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 and 4 February 2016, Parent Company 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%

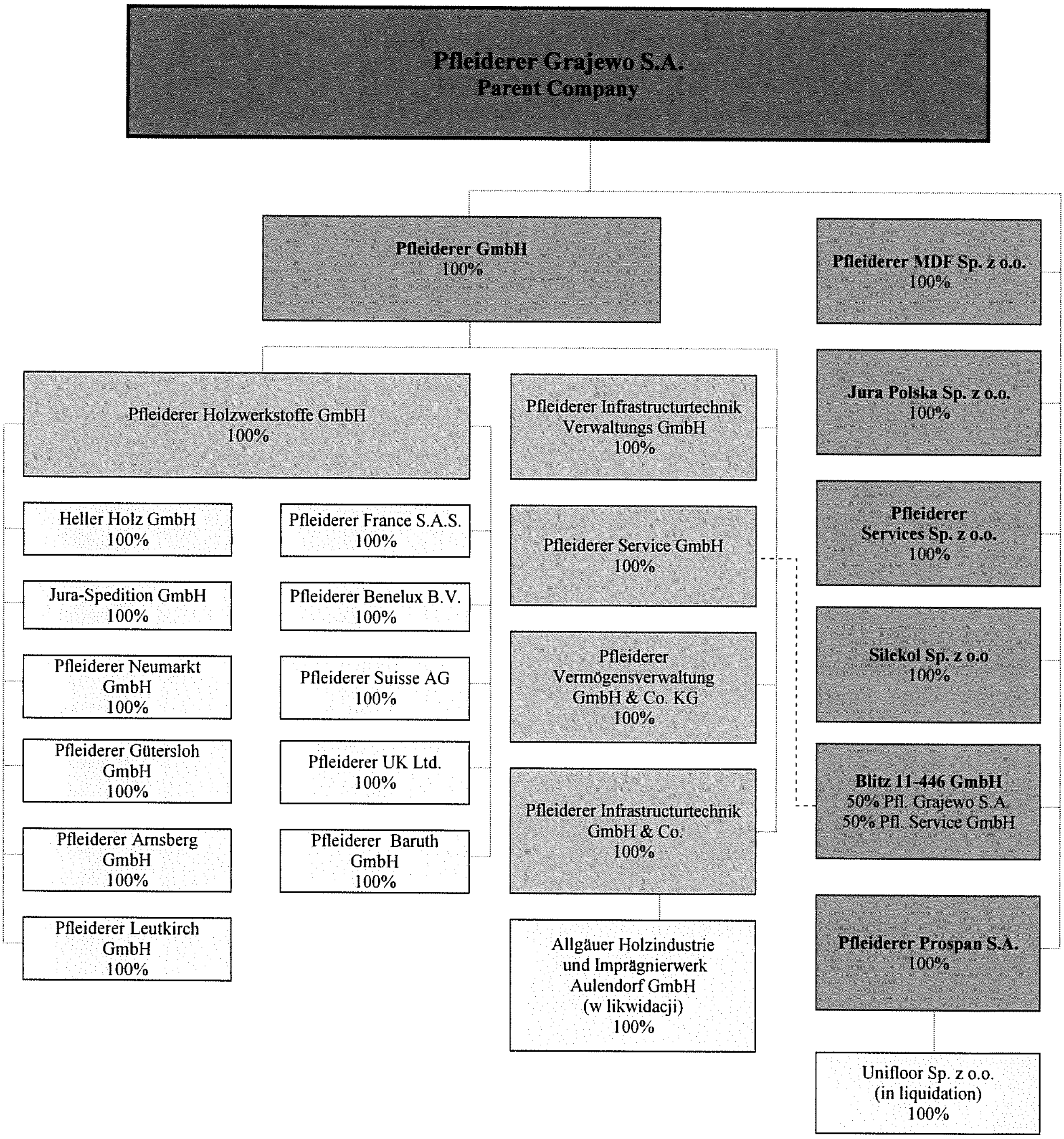
(all amounts in PLN thousand)

	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).

Pfleiderer GmbH was the indirect parent of the Parent Company prior to 19 January 2016. The acquisition of the share in Pfleiderer GmbH by the Parent Company was the final part of the process of reorganization of the Capital Group Pfleiderer, as a result of which the Pfleiderer Grajewo S.A. became the Parent Company of Pfleiderer Group. At the date of publication of this report, the structure of the Capital Group is as follows:



Changes in Supervisory Board

On 19 January 2016, Mr Richard Mayer, Mr Gerd Hammerschmidt and Mr Jochen Schapka resigned from the positions of President and Members of the Supervisory Board. These resignations were submitted in connection with the completion of the Capital Group's reorganization, as a result of which Pfleiderer Grajewo S.A. became the parent company of other entities in the group in which they are acting as members of the management bodies or have other positions that cannot be held while being a Member 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 Parent 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. Group

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

The supplementary report contains 13 pages
The supplementary report on the audit of the consolidated 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 Identification of the Group

1.1.1 Name of the Group

Pfleiderer Grajewo S.A. Group

1.1.2 Registered office of the Parent Company of the Group

ul. Wiórowa 1
19-203 Grajewo

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

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

1.1.4 Management of the Parent Company

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

As at 31 December 2015, the Management Board of the Parent 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 appointed for the position of Member of the Management Board – Transformation Director.

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

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

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 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2015, the following companies were consolidated by the Group:

Parent Company:

- Pfleiderer Grajewo S.A.

Subsidiaries consolidated on the full consolidation basis:

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

Jointly controlled entities (equity accounted investees):

- Blitz 11-446 GmbH.

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

Grajewo OOO – subject to consolidation for the period from 1 January 2015 to 30 April 2015.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Monika Bartoszewicz
Registration number:	10268

1.3.2 Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. 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 in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

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

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 30 June 2015.

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

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Pfleiderer Grajewo S.A. with its registered office in Grajewo, ul. Wiórowa 1 and relates to the consolidated financial statements comprising: the consolidated statements of financial position as at 31 December 2015, the consolidated statements of profit and loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended and notes to the consolidated financial statements for the financial year ended 31 December 2015.

The consolidated 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 consolidated financial statements at the Group entities during the period from 23 November 2015 to 27 November 2015, from 30 November 2015 to 4 December 2015 r., from 18 January 2016 to 22 January 2016 r. and from 25 January 2016 to 29 January 2016 and additional procedures have been performed outside the Parent Company's head office in the period from 8 February to 26 February 2016.

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

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

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

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

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

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

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

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Pfleiderer Prospan S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., Warszawa	31 December 2015	Unmodified opinion
Silekol Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., Warszawa	31 December 2015	Unmodified opinion
Pfleiderer MDF Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., Warszawa	31 December 2015	Unmodified opinion
Jura Polska Sp. z o.o.	Not audited	31 December 2015	Not audited
Unifloor Sp. z o.o. in liquidation	Not audited	31 December 2015	Not audited
Pfleiderer Services Sp. z o.o.	Not audited	31 December 2015	Not audited
Blitz 11-446 GmbH	Not audited	31 December 2015	Not audited

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statements of financial position

ASSETS	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000	% of total
Assets				
Property, plant and equipment	698,438	41.3	679,019	55.8
Intangible assets	4,081	0.2	2,665	0.2
Goodwill	107,829	6.4	107,829	8.9
Investments in subsidiaries	52	-	52	-
Other long-term investments	75	-	5,075	0.4
Investment property	3,860	0.2	3,860	0.3
Deferred tax assets	20,338	1.2	17,390	1.4
Advances paid on fixed assets	30,184	1.8	4,787	0.4
Government grant receivables	90,193	5.3	69,336	5.7
Fair value of hedging instruments	-	-	626	0.1
Non-current assets	955,050	56.4	890,639	73.2
Inventories	156,209	9.2	181,016	14.9
Trade receivables and other	482,180	28.5	122,908	10.1
Income tax receivable	431	0.0	984	0.1
Cash and cash equivalents	88,346	5.2	18,512	1.5
Other short term financial assets	3,272	0.2	2,347	0.2
Government grant receivables	4,892	0.3	-	-
Fair value of hedging instruments	2,727	0.2	587	-
Current assets	738,057	43.6	326,354	26.8
TOTAL ASSETS	1,693,107	100.0	1,216,993	100.0

EQUITY AND LIABILITIES	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000	% of total
Equity				
Share capital	16,376	1.0	16,376	1.4
Share premium	289,806	17.1	289,806	23.8
Reserves	677,490	40.0	295,186	24.3
Retained earnings	206,590	12.2	155,002	12.7
Equity attributable to equity holders of the Company	1,190,262	70.3	756,370	62.2
Total equity	1,190,262	70.3	756,370	62.2
Liabilities				
Loans and borrowings	40,926	2.4	63,696	5.2
Employee related payables	9,667	0.6	10,986	0.9
Provisions	856	0.1	815	0.1
Deferred tax liabilities	15,987	0.9	13,674	1.1
Fair value of hedging instruments	455	0.0	-	-
Deferred income from government grants	113,159	6.7	87,347	7.2
Non-current liabilities	181,050	10.7	176,518	14.5
Loans and borrowings	21,700	1.3	44,655	3.7
Income tax payable	3,637	0.2	5,320	0.4
Trade and other payables	266,390	15.7	206,289	16.9
Employee related payables	23,979	1.4	23,349	1.9
Deferred income from government grants	6,089	0.4	4,492	0.4
Current liabilities	321,795	19.0	284,105	23.3
Total liabilities	502,845	29.7	460,623	37.8
TOTAL EQUITY AND LIABILITIES	1,693,107	100.0	1,216,993	100.0

2.1.2 Consolidated statements 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
CONTINUING OPERATIONS				
Revenue	1,564,998	100.0	1,522,819	100.0
Cost of sales	(1,251,338)	80.0	(1,220,172)	80.1
Profit on sales	313,660	20.0	302,647	19.9
Other income	25,829	1.6	13,004	0.8
Distribution expenses	(116,553)	7.4	(111,659)	7.3
General and administrative expenses	(63,025)	4.0	(55,401)	3.6
Other expenses	(10,575)	0.7	(5,658)	0.4
Results from operating activities	149,336	9.5	142,933	9.4
Financial income	2,182	0.1	1,414	0.1
Financial costs	(13,032)	0.8	(16,333)	1.1
Net financing costs	(10,850)	(0.7)	(14,919)	(1.0)
Profit before tax	138,486	8.8	128,014	8.4
Income tax expense	(26,349)	1.6	(24,758)	1.6
Profit for the period	112,137	7.2	103,256	6.8
Shareholders of the Company	112,137	7.2	103,256	6.8
Non controlling interests	-	-	-	-
OTHER COMPREHENSIVE INCOME				
Items that are or may be reclassified to profit or loss				
Foreign currency differences on translating foreign operations	458	-	(374)	-
Cash flow hedge - effective portion of changes in fair value	2,665	0.2	1,213	-
Cash flow hedge -net change in fair value reclassified to profit or loss	(5,453)	0.4	-	-
Other comprehensive income	*(2,330)*	*0.2*	*839*	-
Total comprehensive income for the period	*109,807*	7.0	*104,095*	6.8
Total comprehensive income attributable to:				
Shareholders of the Company	109,807	7.0	104,095	6.8
Non controlling interests	-	-	-	-
Total comprehensive income for the period	109,807	7.0	104,095	6.8
Earnings per share				
Basic and diluted earnings per share (PLN)	2.26	-	2.08	-

2.2 Selected financial ratios

	2015	2014	2013
1. Return on sales			
profit for the period x 100% / revenue	7.2%	6.8%	4.8%
2. Return on equity			
profit for the period x 100% / equity - profit for the period	10.4%	15.8%	34.6%
3. Debtors' days			
average trade receivables (gross) x 365 days / revenue	21 days	21 days	19 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	29.7%	37.8%	41.7%
5. Current ratio			
current assets / current liabilities	2.3	1.1	1.0

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

3 Detailed report

3.1 Accounting principles

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

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

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

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

3.2 Basis of preparation of the consolidated financial statements

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

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

3.3 Method of consolidation

The method of consolidation is described in note 4a of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 4e of the notes to the consolidated financial statements.

3.5 Consolidation of equity

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

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

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

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

3.7 Notes to the consolidated financial statements

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

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

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

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. 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.

PFLEIDERER GRAJEWO GROUP

DIRECTORS' REPORT
ON THE OPERATIONS OF THE PFLEIDERER GRAJEWO GROUP
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2015

PFLEIDERER GRAJEWO GROUP

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

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Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

1. Financial highlights

	PLN '000		EUR '000	
	1 Jan 1– 31 Dec 2015	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
Revenue	1,564,998	1,522,819	373,972	363,502
Results from operating activity	149,336	142,933	35,685	34,119
Profit before tax	138,486	128,014	33,093	30,557
Net profit attributable to shareholders of the Company	112,137	103,256	26,796	24,648
Net cash provided by operating activities	237,276	183,507	56,699	43,804
Net cash used in investing activities	(99,929)	(89,632)	(23,879)	(21,395)
Net cash used in financing activities	(67,513)	(91,813)	(16,133)	(21,916)
Total net cash flow	69,834	2,062	16,687	493
Basic earnings per share (in PLN/EUR)	2.26	2.08	0.54	0.50
Diluted earnings per share (in PLN/EUR)	2.26	2.08	0.54	0.50
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	1,693,107	1,216,993	397,303	285,525
Liabilities	502,845	460,623	117,997	108,069
Non-current liabilities	181,050	176,518	42,485	41,414
Current liabilities	321,795	284,105	75,512	66,655
Equity	1,190,262	756,370	279,306	177,456
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)	23.99	15.24	5.63	3.58
PLN/EUR exchange rate as at the end of the reporting period			4.2615	4.2623

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

2. General information

The Pfleiderer Grajewo Group consists of one-platform enterprises. The Group's parent Company i.e. Pfleiderer Grajewo S.A. (the Parent) operates in Grajewo, a town located in the north-east part of Poland.

The Parent 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 Group's Management Board received the decision of the District Court of Białystok on entering the Parent 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.

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

2.1. Pfleiderer Grajewo Group companies and their principal business activities

The Pfleiderer Grajewo Group relying on long-term experience on the market of wood based products, is the Central-European Business Centre of an International Pfleiderer Group. The Group has a strong presence in the Central and Eastern Europe and grows steadily, attempting to enter new markets, targeting new segments as well as adding new products to its portfolio.

The mission of the Group is to build a long-term relationship with the clients. In the business context, the Company desires to gain and maintain customer's full confidence and achieve maximum professionalism at all levels of cooperation.

The Grajewo Group consists of production plants of various profiles of the activity. The list of Group's entities with their activities:

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

- manufacture and veneering of wood and wood-based products,
- paper refine,
- domestic and abroad trade.

Pfleiderer Prospan S.A.

A joint-stock company entered in the commercial register maintained by the District Court of Kalisz under No. RHB1754 on 23 September 1997 as Zakłady Płyt Wiórowych Prospan S.A. On 17 September 2001, the company was registered with the District Court of Łódź-Śródmieście in Łódź, 20th Division of the National Court Register under entry No. KRS: 0000042082.

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

Principal business activity:

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

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

Silekol Sp. z o.o.

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

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

Principal business activity:

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

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

Pfleiderer MDF Sp. z o.o.

A Company entered in the National Court Register by the District Court of Białystok, 12th Commercial Division of the National Court Register in Białystok, under entry No. KRS 174810, on 9 October 2003.

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

Principal business activity:

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

Jura Polska Sp. z o.o.

A Company entered in the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under No. KRS 149282, on 24 November 1999.

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

Principal business activity:

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

Unifloor Sp. z o.o. in liquidation

A Company entered in the National Court Register by the District Court of Białystok, Commercial Division of the National Court Register, under No. KRS 0000237233, on 29 June 2005.

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

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

Pfleiderer Services Sp. z o.o.

A Company entered in the National Court Register by the District Court of Białystok, XII Commercial Division of the National Court Register in Białystok, under No. KRS 0000247423, on 20 December 2005.

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

The company has suspended its operations.

2.2. Jointly-controlled entities

Blitz 11-446 GmbH

A Company entered in the Commercial Register by the Court in Nuremberg, under No. HRB 28 166.

HRB Registry Number:	28 166
Tax Identification Number (NIP):	201/116/21366
Registered address:	Ingolstädter Strasse 51, Neumarkt, Germany

Principal business activity:

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

The business of Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o. consists in the manufacture and veneering of wood and wood-based products, impregnation of paper, trade in Poland and abroad, rendering of industrial services related to its core business, as well as other services based on resources held. The other companies provide services and supply raw materials to the Group entities.

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

2.3. Management of the Parent and its subsidiaries

The members of the Supervisory Board and the Management Board of the Parent Company and its subsidiaries as of 31 December 2015 are the following:

Supervisory Board Pfleiderer Grajewo S.A.

Chairman: Paolo Antonietti
Vice Chairman: Michael Keppel
Members:
Jochen Schapka
Jan Woźniak
Richard Mayer
Christoph Mikulski
Gerd Hammerschmidt

Management Board Pfleiderer Grajewo S.A.

President: Michael Wolff
Members: Rafał Karcz
Wojciech Gątkiewicz
Gerd Schubert
Dariusz Tomaszewski

Pfleiderer Prospan S.A.

President: Wojciech Gątkiewicz
Members: Rafał Karcz
Dariusz Tomaszewski

Unifloor Sp. z o.o. w likwidacji

Liquidator: Ryszard Gruszka

Pfleiderer MDF Sp. z o.o.

President: Rafał Karcz
Members: Dariusz Tomaszewski

Silekol Sp. z o.o.

President: Janusz Zowade
Members: Marek Filusch
Ewa Stańska

Jura Polska Sp. z o.o.

President: Krzysztof Brzostek

Changes in the Management Board and Supervisory Board members within the reporting period:

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.

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

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 Zbigniew Prokopowicz was appointed to the position of Vice-Chairmen of the Supervisory 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 position of Member of Management Board – Sales Director.

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

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

3. Structure of the Group as at 31 December 2015

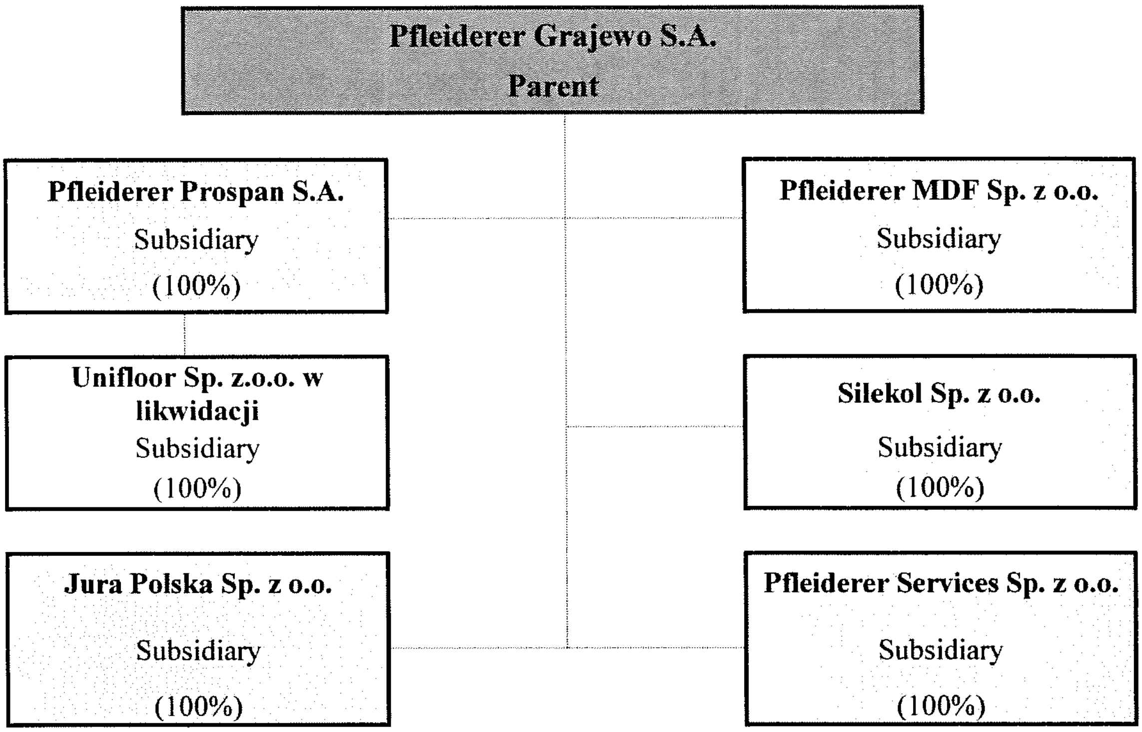
In the period from 1 January to 31 December 2015, Pfleiderer Grajewo S.A. was the parent with respect to the following entities:

Consolidated subsidiaries:		**31 Dec 2015**	**31 Dec 2014**
1. Pfleiderer Prospan S.A.	Wieruszów	100%	100%
2. Silekol Sp. z o.o.	Kędzierzyn Koźle	100%	100%
3. Pfleiderer MDF Sp. z o.o.	Grajewo	100%	100%
4. Jura Polska Sp. z o.o.	Grajewo	100%	100%
5. Unifloor Sp. z o.o. w likwidacji	Wieruszów	100%	100%
6. Grajewo OOO	Novgorod, Russia	0%	100%
7. Pfleiderer Services Sp. z o.o.	Grajewo	100%	100%
Equity-accounted jointly-controlled entities:			
8. Blitz 11-446 GmbH	Neumarkt	50%	50%

Re. 5 indirectly through Pfleiderer Prospan S.A.
Re. 6 disposal of shares on 30 April 2015.

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015

Structure of the Group as at 31 December 2015:



As of 31 December 2015, Pfleiderer Grajewo S.A. has full control of the aforementioned companies due to the ability to set and manage the financial and operating policies of such companies through the right to appoint and dismiss the management board members of these companies.

Description of changes in the structure of the Capital Group in the reporting period.

On 30 April 2015, Pfleiderer Grajewo S.A. sold a 100% equity interest of Grajewo OOO. The sale price was 4 PLN (1 EUR).

From 1 January to 31 December 2015, there were no essential changes in the capital structure, however, on 19 January 2016, the District Court in Białystok made a record in the business register, concerning an increase in the share capital of the Parent Company, Pfleiderer Grajewo S.A. from the sum of PLN 16,376 thousand to the sum of PLN 21,351 thousand through the issuance of 15,077,007 series E ordinary shares of PLN 0.33 at 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 Parent 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 parent company Pfleiderer Grajewo S.A. on 19 January 2016, the Parent 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 dispositive agreement was concluded based on a conditional sales agreement concluded on 5 October 2015 by the Parent 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 Parent 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 Group. The new structure of the Group was presented in point 26 *Other activities of the Group.*

4. 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 20 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.l.	6,172,705	9.54%	6,172,705	9.54%
Brookside S.a.r.l. *	5,076,738	7.85%	5,076,738	7.85%
Field Point IV S.a.r.l.	3,079,810	4.76%	3,079,810	4.76%
Kings Forest S.a.r.l.	1,745,520	2.70%	1,745,520	2.70%
Field Point V S.a.r.l.	449,409	0.69%	449,409	0.69%
Field Point Acqusition S.a.r.l.	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.

5. External and internal factors affecting the Group's business

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

5.2. Internal factors affecting the Group's business:

- Technological process – the technologies implemented by the Group result in exposure to fire hazard. To mitigate the risk, the Group uses a number of technical and organisational safeguards. The risk of unplanned downtime is reduced through the implementation of an annual maintenance and modernization as well as maintaining a strategic stock of spare parts.
- 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 Group uses a full spectrum of available financial instruments.

6. Current and future activities of the Group

6.1. Plans and development prospects for 2016

- Completion of the transaction concerning the increase of the share capital of the Parent 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 Group's plants to better align its production capacities with market needs and generate cost efficiencies. Completion of an investment package assuming the purchase of four devices (new varnishing line, a trimmer, a grinder and packaging & customization line). The purpose of the investment is to increase the profitability, expand the product range, and to create new workplaces.
- Adapting the product offering to meet market needs – not only in terms of quality, but also design – through continued collaboration with designers and active presence at trade events for interior designers (promotion of new designs for finished furniture products).
- Expansion onto European markets.
- Implementation of new technical systems and improving the efficiency of the Group through further optimisation of the production processes and a cost savings programme.
- Promotion of the Pfleiderer brand as a modern and continuously developing organisation, which implements state-of-the-art technologies and respects the natural environment.

6.2. In 2015, the efforts of Pfleiderer Grajewo S.A. Group were focused on the following tasks:

- 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.
- Initialization of an investment package assuming the purchase of four devices (new varnishing line, a trimmer, a grinder and packaging & customization line).
- Activities geared towards enabling effective expansion on the interior design market.
- Enhancement of efficiency and production processes through tight cost control.
- Improving the quality of products and services.
- Analysis of production and sales volumes and adjusting them to current market demand.
- Optimisation efforts designed to improve the Group's operating efficiency.
- Securing of wood and chemicals supplies.
- Improvement of the Group's working capital.
- Promotion of the Company's image as a financially stable and reliable business partner.
- Strengthening of Pfleiderer's market position by promoting the Pfleiderer brand and vision.
- Market launch of a new decor collection.
- Analysis of the Group's financial standing, current sales strategy and organisation of the production and distribution processes in order to improve efficiency and identify areas in need of restructuring.
- Expansion and consolidation of the dealership network, creation of standardised visual identification for Pfleiderer Partner sale outlets.

7. Information material to the assessment of the staffing situation, financial standing and performance of the Group and their changes, and for the assessment of the Group's ability to meets its liabilities.

7.1. Financial standing of the Pfleiderer Grajewo Group.

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

	31 Dec 2015	31 Dec 2014
Equity (attributable to shareholders of the Company)	1,190,262	756,370
Total equity	1,190,262	756,370
Non-current liabilities	181,050	176,518
Long-term capital (total equity + non-current liabilities)	1,371,312	932,888
Current liabilities	321,795	284,105

The Group finances its operations with own funds and bank borrowings.

The Pfleiderer Grajewo Group also supports its operations with a non-recourse factoring programme, whereby it sells insured trade receivables to PEKAO Faktoring Sp. z o.o. and BZ WBK Faktor Sp. z o.o. This form of financing was available to Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o., and was limited to PLN 265,000 thousand. The factoring agreements with BZ WBK Faktor Sp. z o.o. were concluded for an indefinite period, while the term of the agreements with PEKAO Factoring Sp. z o.o. is at least one year. The agreements are automatically prolonged for the next year if neither party notifies the other party of its intention not to extend an agreement, with the proviso that such notice may be sent no later than two months before the expiry of a given agreement.

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

7.2. Workforce and remuneration at the Pfleiderer Grajewo Group

As at 31 December 2015, the Group employed 1,269 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board. The Group's employment structure as at the end of the reporting period was as follows:

Employees	31 Dec 2015	31 Dec 2014
- direct production employees	664	666
- indirect production employees	271	272
- administration, office and other employees	334	329
Total	**1,269**	**1,267**

Workforce at Group companies:

Company	Workforce in 2015	Employees directly involved in production	Employees indirectly involved in production	Administration and office employees
Pfleiderer Grajewo S.A.	584	269	128	187
Pfleiderer Prospan S.A.	422	209	116	97
Jura Polska Sp. z o.o.	33	10	-	23
Silekol Sp. z o.o	98	55	27	16
Pfleiderer MDF Sp. z o.o.	132	121	-	11
Unifloor Sp. z o.o. in liquidation	-	-	-	-
Total	**1,269**	**664**	**271**	**334**

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

1.	President of the Management Board	Wojciech Gątkiewicz	PLN 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.

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 Group.

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.

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

As at the date of this Report, the Management and Supervisory 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 (till 2 March 2016) - 4,108 Company 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.

8. Production and sales structure

8.1. Production volume and structure

In 2015 and 2014, the production volumes of the four main product groups at three subsidiaries (Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o.) were as follows:

		1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014	change (%)
Gross production of raw chipboards *(finished goods; semi-product to laminated chipboards)*	thous. cubic m	1,251	1,184	6%
Laminated chipboards	thous. sqm	37,323	37,103	1%
Raw MDF boards *(finished goods; semi-product to lacquered MDF boards)*	thous. cubic m	236	243	(3%)
Lacquered MDF boards	Thous. sqm	34,780	29,926	16%

In 2015 the production volume increased in each three key product groups. The table above presents percentage change as compared to the previous year.

8.2. Sales volume and structure

Revenue reported by the Group in 2015 was PLN 1,564,998 thousand and increased by 3% when compared to 2014.

The share of exports in total sales increased slightly as compared to the previous year (by 2 pp), and accounted for 36% of Group's total sale in 2015.

Revenue by product group was as follows:

By product group	1 Jan – 31 Dec 2015	% share (%)
Revenue from sale of products:	**1,511,750**	**96.60%**
Chipboards *(raw boards, laminated boards, fibre mats, MFP)*	826,795	52.83%
MDF boards *(raw MDF, enamelled MDF, fibre mats)*	295,727	18.90%
Glues *(basic resin, specialised resin, formalin)*	304,150	19.43%
Other *(films, foils, edge banding, packaging, and other)*	85,078	5.44%
Revenue from sale of materials	**4,865**	**0.31%**
Revenue from sale of merchandise	**4,995**	**0.32%**
Revenue from rendering of services	**43,388**	**2.77%**
Total sales	**1,564,998**	**100.0%**

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

Sales by key product groups		1 Jan 31 Dec 2015	1 Jan 31 Dec 2014
Raw chipboard	thous. cubic m	490.7	475.1
Laminated board	thous. sqm	37,239.9	35,503.8
Raw MDF boards	thous. cubic m	127.4	156.5
Lacquered MDF boards	thous. sqm	31,760.1	28,545.6

Revenue by region was as follows:

	1 Jan – 31 Dec 2015	1 Jan– 31 Dec 2014
Domestic sales	**1,007,298**	**1,004 167**
- revenue from sale of products	974,276	973,190
- revenue from sale of merchandise and materials	6,142	8,088
- revenue from rendering of services	26,880	22,889
Foreign sales	**557,700**	**518,652**
- revenue from sale of products	537,475	496,701
- revenue from sale of merchandise and materials	3,717	4,771
- revenue from rendering of services	16,508	17,180
Total	**1,564,998**	**1,522,819**

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

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

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

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

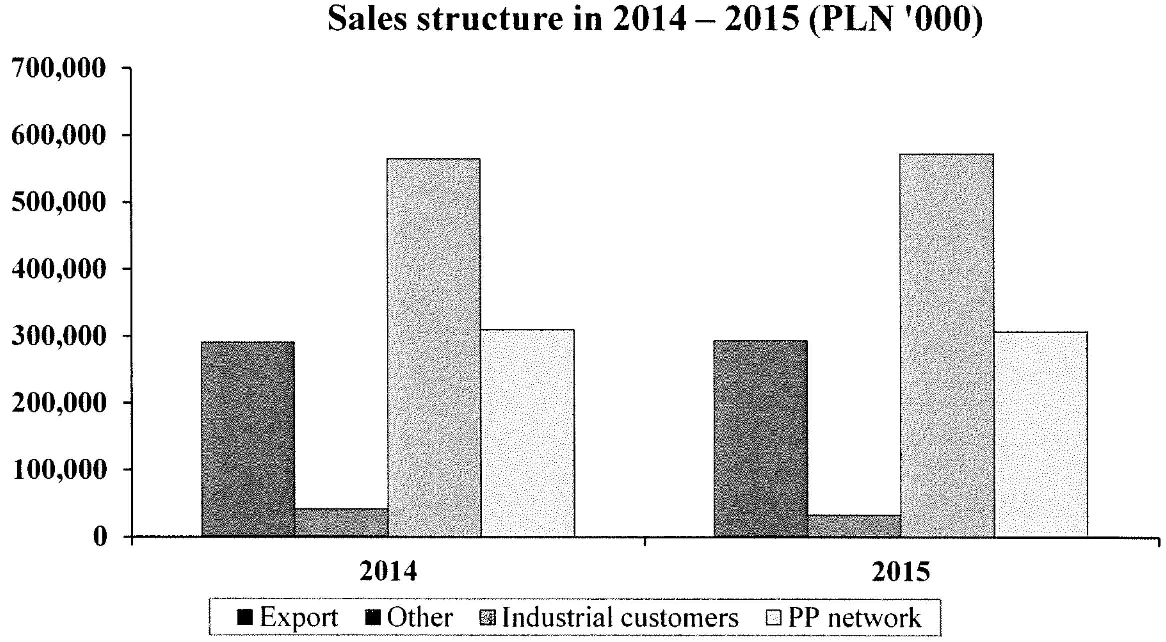


Figure: Sales structure in 2014–2015 (PLN '000).

In the Polish market, direct sales to large and medium-sized furniture manufacturers and the Pfleiderer Partner network continued to represent the most important distribution channels. Compared with the previous year, in 2015 sales to large furniture manufacturers grew by 1.3%, while the value of sales to the Pfleiderer Partner network decreased by 0.7%. Exports sales increased by 0.9% comparing to previous year. Sales to other domestic distribution decreased by 20.8%.

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

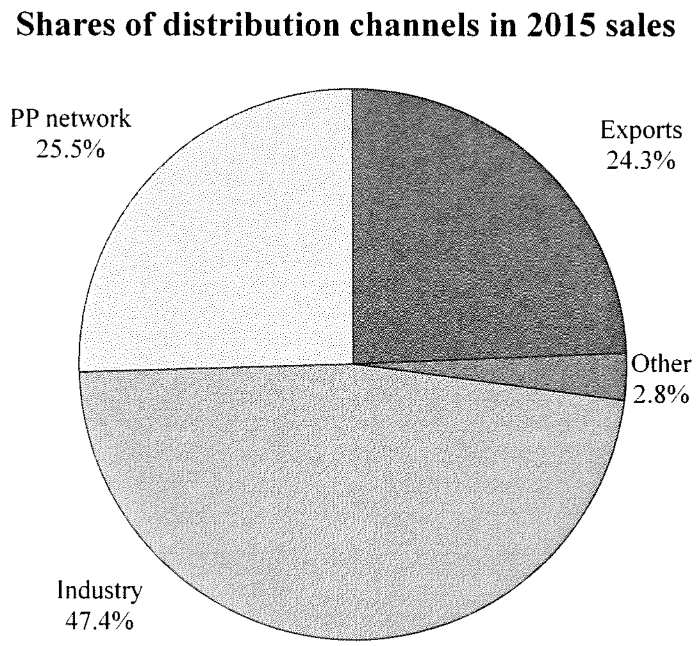


Figure: Sales by distribution channel in 2015 (%)

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

- The share of direct sales to large and medium-sized furniture manufacturers increased from 46.2% to 47.4%
- The share of sales to the Pfleiderer Partner network fell down from 25.8% to 25.5%
- The share of sales through other distribution channels fell down from 3.6% to 2.8%
- The share of exports fell down from 24.4% to 24.3%

9. Procurement

In 2015, the structure of wood supplies was practically the same as in the previous years. Wood used in production was purchased from each plant's traditional sources. Group is not dependent on a single supplier. The value of transactions did not exceed 10% of the total purchases with any of the suppliers in 2015.

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

10. Economic and financial data

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

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

	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
$\frac{\text{Profit before tax}}{\text{Revenue}}$	8.85%	8.41%
$\frac{\text{Net profit (attributable to shareholders of the Company)}}{\text{Revenue}}$	7.17%	6.78%

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

11. Use of bank borrowings

	31 Dec 2015	31 Dec 2014
Bank loans	62,626	108,351
Cash	88,346	18,512
Cash net debt	**(25,720)**	**89,839**

In June 2013, Pfleiderer Grajewo S.A. (the Parent) and the subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. entered into credit facility agreements which currently continue in force. 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 Parent and its subsidiaries. Additionally Pfleiderer MDF Sp. z o.o., a subsidiary has multi-purpose facility agreement with PKO BP S.A. with a limit amounting to PLN 54,000 thousand.

Credit facility agreement with Bank Millennium S.A.

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

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

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

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

Credit facility agreement with Alior Bank S.A.

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

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

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

Credit facility agreement with Bank Zachodni WBK S.A.

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

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

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

Credit facility agreement with Bank Ochrony Środowiska S.A.

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

Investment facility agreement with PKO BP S.A.

On 15 January 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 235,022 thousand investment facility agreement with PKO BP S.A. It is a special-purpose facility obtained to finance the construction of the MDF board production plant in Grajewo. As at 31 December 2015, the Group's debt outstanding under this facility was PLN 66,626 thousand (31 December 2014: PLN 85,396 thousand).

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

On 29 August 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 65,000 thousand multi-purpose facility agreement with PKO BP S.A. The agreement provides for a PLN 30,000 thousand overdraft facility, a PLN 30,000 thousand revolving working capital facility, and a PLN 5,000 thousand guarantee and letter-of-credit limit.

Under an amendment signed on 23 March 2009, the amount of the multi-purpose facility was reduced to PLN 57,000 thousand. Following execution of the annex, the facility agreement provides for an overdraft facility of PLN 25,900 thousand, a revolving working capital facility of PLN 30,000 thousand, and a guarantee and letter-of-credit limit of PLN 1,100 thousand.

Under the amendment, signed on 10 June 2015, the term of the facility was extended until 31 May 2018. The amount of multi-purpose facility was reduced over the following three years starting from 2011 and as at 31 December 2015 amounted to PLN 54,000 thousand. As at 31 December 2015, the amount outstanding under the facility was PLN 0 thousand.

Revolving Facility 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 Renewable Credit Agreement through supplementary credits (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 Group did not carry any borrowings from related parties.

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

As at 31 December 2015, no such events occurred.

13. Feasibility of the Group's investment plans for 2015

The Group continues a long-term investment programme designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity. In 2015, the Pfleiderer Grajewo Group incurred capital expenditure of PLN 111,147 thousand (including advances).

13.1. PFLEIDERER GRAJEWO S.A.

Operating investments in 2015: planned: PLN 26,855 thousand realised: PLN 31,325 thousand.

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

13.2. PFLEIDERER PROSPAN S.A.

Operating investments in 2015: planned: PLN 61,751 thousand realised: PLN 51,907 thousand.

Construction of biomass-fired boiler room	23,279 thousand
Extension of the automatic wood shaving feed installation, silo	7,771 thousand
Modernisation of kitchen worktop laminating line	5,656 thousand
Modernisation of insulation on heating shelves	1,427 thousand
Impregnation unit / buyout from lease	1,400 thousand
Modernisation of steering facility	1,016 thousand
Capitalization of major overhaul costs of fixed assets	4,816 thousand
Other investment projects below PLN 1m each	6,542 thousand

In 2016, planned investments are PLN 36,976 thousand. The investment package assumes, among others, continuation of strategic investments, aiming at reducing costs and increasing the volume of production. The most important investments will include:

Modernisation of kitchen worktop laminating line	9,929 thousand
Carpet heating	9,138 thousand
Modernisation of the steel conveyor belt	2,900 thousand
Construction of biomass-fired boiler room	2,619 thousand
Extension of the automatic wood shaving feed installation, silo	2,291 thousand

13.3. SILEKOL Sp. z o.o.

Operating investments in 2015: planned: PLN 2,904 thousand realised: PLN 3,531 thousand

Urea dedusting system	694 thousand
Extension of ventilation refrigeration room	576 thousand
Other investment projects < PLN 0.5 M	2,261 thousand

The investment projects planned for 2016 are PLN 7,508 thousand. These are primarily upgrading investments.

13.4. PFLEIDERER MDF Sp. z o.o.

Operating investments in 2015: planned: PLN 16,999 thousand realised: PLN 24,160 thousand

Modernisation of heating shelves	5,621 thousand
Trim varnishing line (investment package element)	3,659 thousand
Trimmer (investment package element)	2,787 thousand
Modernisation of steel belt	2,465 thousand
Sewage treatment plant system	1,348 thousand
Capitalized major overhaul costs	4,051 thousand
Other investment projects below PLN 1m each	4,229 thousand

In 2016, the planned investments are PLN 35,779 thousand. These are primarily strategic investments, aiming at increasing the product offer. This plan assumes the continuation of execution of the investment package, assuming the purchase of four devices (a new varnishing line, a trimmer, a grinder, and a packaging & customization line). The most important of the planned investments include:

Investment package – painting line	14,707 thousand
Investment package – sizing machine	9,316 thousand
Investment package – grinder	3,308 thousand
Investment package – packaging line	2,349 thousand
Installation of the emergency source of steam	2,000 thousand

Jura Polska Sp. z o.o., a subsidiary, completed investments of PLN 224 thousand in 2015.

14. Marketing activities in 2015

Marketing objectives:

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

14.1. Objectives achieved in the furniture and interior design market

a) 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.

b) Communications 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.

14.2. Activities in the construction market

a) Product policy

- Marketing of the Living Board panel.

b) Communications 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.

15. 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 32 in the notes to the consolidated financial statements of the Pfleiderer Grajewo Group.

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

16. Management of Pfleiderer Grajewo Group'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 Group 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 Group due to the large export and import is exposed.

In 2015, Parent Company 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.)

16.1. Notes

As at 31 December 2015, the par value of the Parent's debt under issued notes totaled PLN 234,500 thousand. The notes are used to optimise the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

16.2. Bank borrowings

For detailed information on the bank borrowings and Group's existing debt, see section 11 of this Directors' Report.

As at 31 December 2015, debt outstanding under the bank borrowings taken out by the Group amounted to PLN 66,626 thousand.

16.3. Borrowings from related parties

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

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

For detailed information on all liabilities under bank borrowings and other debt instruments as well as contingent liabilities as at 31 December 2015, see Note 24 and Note 31, respectively, to the consolidated financial statements of the Pfleiderer Grajewo Group, while the information related to security of the borrowings was described in section 17.2 of to this Directors' Report.

17. Financial instruments

17.1. Derivatives

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

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).

Additionally, in 2015, the subsidiary Silekol Sp. z o.o. executed 15 forward contracts for the total amount of EUR 22,750 thousand. As at 31 December 2015, it held 4 open FX forward contracts for the sale of a total of EUR 8,000 thousand with settlement dates falling at 12 April 2016. As at the reporting date, the valuation of these transactions was positive at PLN 195 thousand (fair value – level 2).

As at 31 December 2015, the subsidiary Pfleiderer MDF Sp. z o.o. held 3 open FX forward contracts for the sale of a total of EUR 3,000 thousand with settlement dates falling before the end of May 2016. As at the reporting date, the valuation of these transactions was positive at PLN 96 thousand (fair value – level 2).

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

As at 31 December 2015, no other subsidiaries were counterparties under derivative contracts.

17.2. Guarantees, sureties and security provided by the Group

As at 31 December 2015, the Group had the following contingent liabilities and security:

17.2.1. Mortgage over properties and registered pledge over plant and equipment.

A mortgage over properties and a registered pledge over machines are set as security for an investment credit facility granted to Pfleiderer MDF Sp. z o.o. by PKO Bank Polski S.A. on 15 January 2007. It is a special purpose facility obtained to finance the construction of the new MDF production plant in Grajewo. The mortgage over properties secures a liability of up to PLN 356,860 thousand.

The registered pledge over machines safeguard liabilities of up to PLN 450,000 thousand and was created over the circulating assets owned by Pfleiderer MDF Sp. z o.o. The pledge is updated on a quarterly basis in case of change of circulating assets (machines, vehicles). As at 31 December 2015, the Group's debt under the investment facility amounted to PLN 66,626 thousand.

17.2.2. Mortgage on real estate located at ul. Wiórowa in Grajewo and a registered pledge on items and rights.

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

The registered pledge was created based on the agreement dated 30 July 2010 over assets and rights between Pfleiderer MDF Sp. z o.o. and PKO Bank Polski S.A. The abovementioned registered pledge in favour of PKO Bank Polski S.A. secures liabilities of up to PLN 83,163 thousand under a multi-purpose credit facility of PLN 54,000 thousand. The pledge is a result of the repayment term extension of abovementioned credit facility by three years, until 31 May 2018. On the same assets earlier pledge was created for the benefit of PKO Bank Polski S.A. in connection with an investment credit facility agreement signed on 15 January 2007.

As at 31 December 2015, the Group's debt under the facility totaled PLN 0 thousand.

17.2.3. Mutual sureties granted within the Group

As at 31 December 2015, subsidiaries of the Pfleiderer Grajewo Group disclosed sureties granted for the liabilities of other Group companies. No surety or guarantee was disclosed for liabilities of entities outside the Pfleiderer Grajewo Group.

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

a) Pfleiderer Grajewo S.A., the Parent, issued six sureties for a total amount of up to PLN 65,750 thousand. As at 31 December 2015, the amount of underlying debt secured with the sureties was PLN 0 thousand.

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

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

   As at 31 December 2015, the amount of underlying debt secured with the sureties was PLN 0 thousand.

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

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

   As at 31 December 2015, the amount of underlying debt secured with the sureties was PLN 0 thousand.

The credit facilities are secured with a mortgage on developed properties, i.e. the Parent's production plant in Grajewo and the Wieruszów production plant owned by Pfleiderer Prospan S.A., as well as with a pledge over the production plants' machinery.

17.2.4. 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.

None of the other Group subsidiaries have granted any guarantees or sureties.

17.2.5. Loans granted

As at 31 December 2015 3Spare Sp z o.o. liabilities to Pfleiderer Prospan SA amounted to PLN 3,272 thousand (PLN 3,000 thousand is principal amount, PLN 272 thousand is interest for 2015). In the period 1 January 2015 to 31 December 2015 Pfleiderer Prospan SA accrued PLN 272 thousand interest on the loan. On 7 January 2016 Pfleiderer Prospan SA received from 3Spare Sp. z o.o PLN 272 thousand as payment of interest on the loan. The loan was granted until 31 December 2016 and the interest rate was WIBOR 1M + margin.

18. Financial risks related to the Group's operations

18.1. Objectives and methods of financial risk management applied by the Pfleiderer Grajewo Group

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

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

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

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

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

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

18.2. Credit risk

Transactions which expose the Pfleiderer Grajewo Group companies to credit risk concern trade receivables and loans granted. The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and full factoring. In 2015, over 90% of the Group's trade receivables were secured in this way. In the event of insolvency of customers who have insurance coverage, compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

A subsidiary Pfleiderer Prospan S.A. has loan receivables from one entity: 3 Spare Sp. z o.o., secured by the promissory note limited to the value of the debt.

18.3. Interest rate risk

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

18.4. Currency risk

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

In 2015, the Pfleiderer Grajewo Group 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 17.1. of this Directors' Report.

18.5. Price risk associated with financial instruments

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

18.6. Liquidity and material cash-flow disruptions risk

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

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

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

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	Current assets / Current liabilities	Current assets - inventories / Current liabilities	Average trade and other receivables / Net revenue / 360	Average trade and other payables / Net revenue / 360	Average inventories / Net revenue / 360
31 Dec 2015	1.17*	0.68*	28 days*	54 days	39 days
31 Dec 2014	1.15	0.51	28 days	53 days	42 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 Pfleiderer Grajewo Group had debt under bank borrowings of PLN 62,626 thousand. It also had unused credit facilities of PLN 299,948 thousand. The Group also held cash of PLN 88,346 thousand.

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

19. 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 consolidated 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 Group in the consolidated financial statements.

20. **Information related to** significant settlement of litigation

As at 31 December 2015, the Group did not carry any material settlements under court proceedings. In 2015, there were no circumstances which would substantiate the recognition of any provisions for costs of court proceedings.

21. Corrections of errors of past periods

In 2015, the Group did not correct any errors of past periods.

22. Corporate governance

Appointment and removal of the management staff

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

Parent's management bodies

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

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

Amendments to the Parent's Articles of Association

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

Proceedings of the Parent's General Meeting

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

Shares in the Parent

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

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

Financial statements of the Parent and the Group

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

The Pfleiderer Grajewo Management Board declares that the Parent complies with the corporate governance rules contained in the Code of Best Practice for WSE Listed Companies, appended to the WSE Supervisory Board Resolution No. 19/1307/2012, dated 21 November 2012, with the exception of the following rules, which the Group does not apply.

Rule I.12

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

Rule IV.10

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

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

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

As of 1 January 2016, the Parent Company – 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".

23. 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.

24. Supervisory Board Committees

The following committees operate in the Parent 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.

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

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

26. Other activities of the Group

Events subsequent to the end of the reporting period

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 the Parent Company, 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 Parent 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 Parent Company Pfleiderer Grajewo S.A. on 19 January 2016, the Parent 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 Parent Company and Atlantik S.A.

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

Revolving facility agreement

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. after completion of Group reorganization process became the debtors under a Renewable Credit Agreement (next to Pfleiderer GmbH and Pfleiderer Holzwerkstoffe GmbH).This is the result of the fulfillment of certain conditions contained in the amending agreement dated 5 October 2015.

Shareholders

On 21 January 2016, Parent Comapny 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 and 4 February 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%

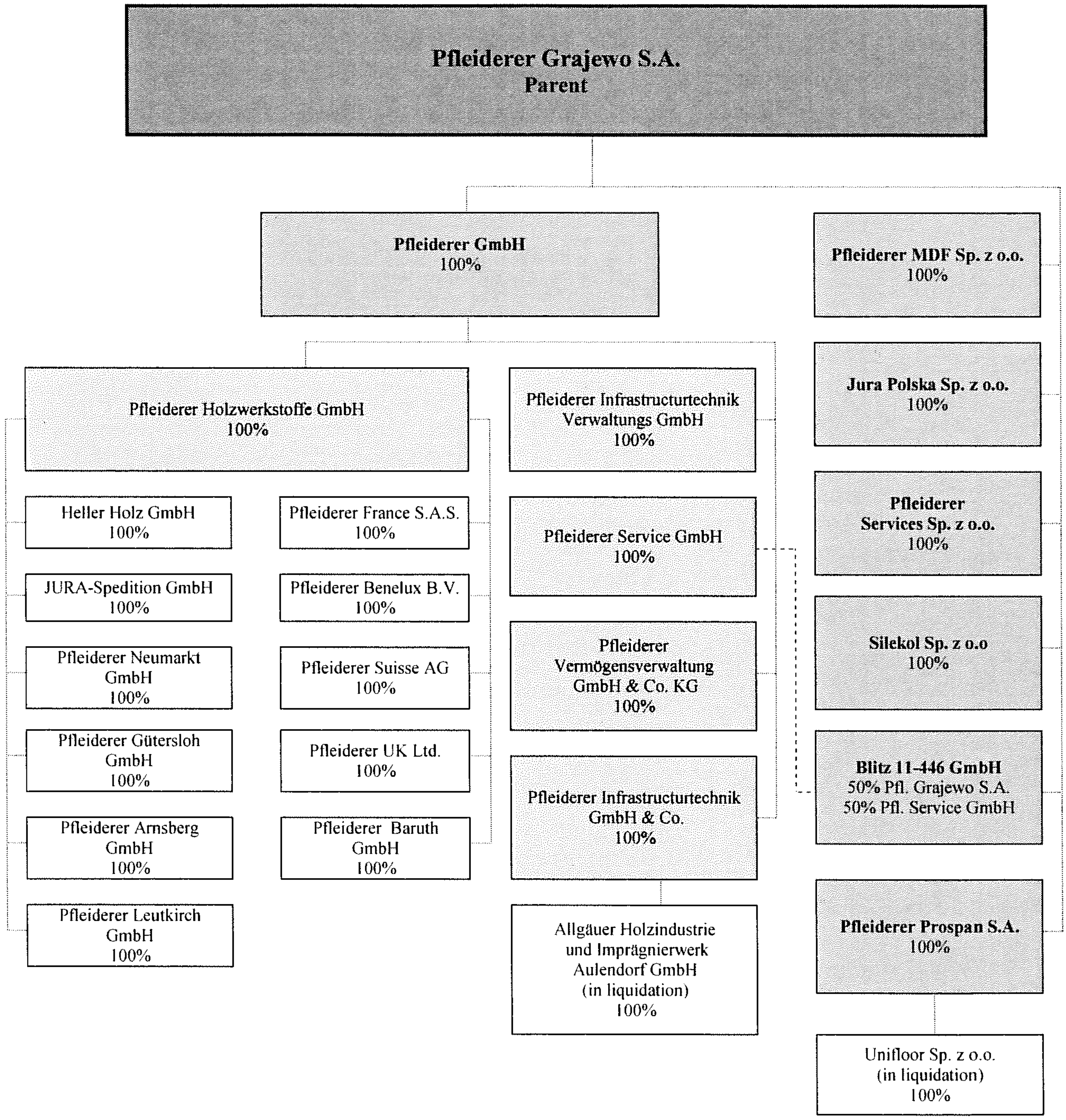
	Subsidiaries of Strategic Value Partners LLC directly holding shares of Pfleiderer Grajewo SA		
		Number of shares	**%**
1	Yellow Saphire S.a.r.l.	6 172 705	9,54%
2	Brookside S.a.r.l.	5 076 738	7,85%
3	Field Point IV S.a.r.l.	3 079 810	4,76%
4	Kings Forest S.a.r.l.	1 745 520	2,70%
5	Field Point V S.a.r.l.	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).

Purchase of the share in Pfleiderer GmbH by the Parent 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. Structure of the Group as at the date of this Director's Report is as follows:

Directors' Report on the operations of the Pfleiderer Grajewo Group in the period 1 January – 31 December 2015



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Changes in the Supervisory Board

On 19 January 2016, Richard Mayer, Gerd Hammerschmidt and Jochen Schapka resigned from their seats as the President and Members of the Supervisory Board, respectively. The resignations were accepted due to 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 serve as the members of management bodies or occupy other positions, which must not be combined with serving as a member 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 Zbigniew Prokopowicz was appointed to the position of the Vice-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.

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Economic forecast for the foreseeable future.

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.

Management Board of Pfleiderer Grajewo S.A. **Grajewo, 20 March 2016 r.**

Michael Wolff
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Gerd Schubert
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Transformation Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director