

POLISH FINANCIAL SUPERVISION AUTHORITY

Condensed Quarterly Report Qsr 3 / 2016

quarter / year

(prepared in accordance with Par. 82.2 and Par. 83.3 of the Regulation of the Minister of Finance dated February 19th, 2009 – Dz.U. No. 33, item 259)
For issuers conducting manufacturing, construction, trade or services business

For the 3rd quarter of the financial year 2016, covering the period from
January 1st to September 30st, 2016,

including condensed consolidated financial statements prepared in accordance with the
IFRS

Currency: EUR

and condensed non-consolidated financial statements in accordance with IFRS

Currency: PLN

Date of filing: November 7th, 2016

Pfleiderer Group Spółka Akcyjna (previously Pfleiderer Grajewo Spółka Akcyjna)
(full name)

Pfleiderer Group SA
(abbreviated name)

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(postal code)

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(NIP – Tax Identification Number)

Wood products
(sector according to the Warsaw Stock
Exchange's classification)

Wrocław
(registered office)

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(number)

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www.pfleiderer.pl
(web site)

450093817
(REGON – Industry Registration Number)

FINANCIAL HIGHLIGHTS

Condensed consolidated financial statements data

'000 EUR	Jan. 1 - Sep. 30, 2016	Jan. 1 - Sep. 30, 2015
I. Sales revenue	695 804	279 294
II. Operating profit	23 261	26 078
III. Profit before taxes	9 712	24 733
IV. Net profit	16 546	19 834
V. Net profit attributable to equity holders of the parent	16 546	19 834
VI. Net cash provided by operating activities	79 272	26 671
VII. Net cash used in investing activities	-41 279	-13 510
VIII. Net cash provided by / used in financing activities	18 349	-12 477
IX. Total net cash flow	56 342	684
X. Total assets	962 941	301 664
XI. Liabilities	691 677	103 319
XII. Non-current liabilities	478 609	37 172
XIII. Current liabilities	213 068	66 147
XIV. Equity	271 264	198 345
XV. Share capital	6 692	5 573
XVI. Weighted average number of shares (units)	63 655 521	49 624 000
XVII. Weighted average diluted number of shares (units)	63 655 521	49 624 000
XVIII. Earnings per ordinary shares (EUR)	0,26	0,40
XIX. Diluted earnings per ordinary share (EUR)	0,26	0,40
XX. Book value per share (EUR)	4,19	4,00
XXI. Diluted book value per share (EUR)	4,19	4,00
XXII. Declared or paid dividend per share (EUR)	0,23	0,00

Condensed separate financial statements data

'000 EUR	Jan. 1 - Sep. 30, 2016	Jan. 1 - Sep. 30, 2015
XXIII. Sales revenue	90,737	112,574
XXIV. Operating profit/(loss)	3,511	6,097
XXV. Profit/(loss) before tax	19,906	16,057
XXVI. Net profit	18,941	15,094
XXVII. Net cash provided by (used in) operating activities	-5,540	9,601
XXVIII. Net cash provided by (used in) investing activities	-130,291	9,498
XXIX. Net cash provided by (used in) financing activities	129,368	-16,851
XXX. Total net cash flow	-6,463	2,248
XXXI. Total assets	513,925	260,531
XXXII. Liabilities	252,501	83,789
XXXIII. Non-current liabilities	325	2,180
XXXIV. Current liabilities	252,176	81,609
XXXV. Equity	261,424	176,743
XXXVI. Share capital	6,692	3,864
XXXVII. Weighted average number of shares (units)	63,655,521	49,624,000
XXXVIII. Weighted average diluted number of shares (units)	63,655,521	49,624,000
XXXIX. Earnings per ordinary shares (EUR)	0.30	0.30
XL. Diluted earnings per ordinary share (EUR)	0.30	0.30
XLI. Book value per share (EUR)	4.04	3.56
XLII. Diluted book value per share (EUR)	4.04	3.56
XLIII. Declared or paid dividend per share (EUR)	0.23	0.00

Ladies and Gentlemen

The project “ONE PFLEIDERER” successfully drove the next stage of full integration of the Group, which has unlocked further growth potential. After 9-month period of 2016, Pfleiderer Group demonstrated a strong financial performance supported also by the growth of the national economies and it shows positive outlook for the construction markets in both DACH and Poland. The Group’s business performance is supported by a strong volume demand across all product groups in particular value added products, such as HPL and laminated particleboard.

The Group’s sustainable EBITDA – the EBITDA adjusted by non-sustainable issues – increased significantly by 12.9% to EUR 108.4 million. The EBITDA margin was raised to 14.9% of revenue and overachieved our expectations for the reporting period. The Group is well on track and we are expecting the sustainable EBITDA to increase by at least low double-digit percentage over the full year. The results of the 9-month period were influenced by several non-sustainable items: expenses for the re-IPO (EUR 10.2 million), the provisions for necessary reorganization process of the capital group (EUR 7.3 million) - 150 white collar employees leaving German entities in 2017 - 2018, and the provisions for costs related to antitrust claims or for settlements of such claims (EUR 3.8 million). The outcome, i.e. the potential costs that may arise in connection with the cartel claims or the amount of damages that might be required to be paid cannot be assessed yet. We see the Q3 of 2016 as the last extraordinary quarter regarding non-sustainable expenses.

After 9-month period of 2016, the Group’s revenues amounted to EUR 726.6 million (on a comparable full 9-month period), slightly below the level posted in the same period last year (EUR 741.9 million). This reduction was mainly affected by lower sales prices and a negative exchange rate effect by EUR 23.6 million, but was compensated by a stable volume growth in Core West (EUR 21.1 million) and overall favorable material prices.

The Western European business has boosted the performance of the Pfleiderer Group from 19 January 2016. The segment increased its revenues by 2.1% to EUR 501.2 million, mainly due to higher volumes sold across all segments, in particular by raw and laminated particleboard, despite ongoing pressure on sales prices. Nevertheless, the overall development in the Eastern Europe segment is less positive – revenues fell from EUR 279.3 million to EUR 251.6 million in 9-month 2016. The main reasons for this development are the drop in turnover of our HDF-plant MDF Grajewo (negative contribution of EUR 13.7 million due to overcapacity in the market) and the pricing pressure in Poland for particleboards imported from Belarus and Ukraine to the Polish domestic market. However, in the Q3, 2016 the sales reduction in HDF-plant MDF Grajewo was only EUR 1.5 million and we foresee that the decrease is stopped. Furthermore, revenues were affected by a negative exchange rate effect by EUR 5.8 million. Quantity-wise, the available capacities at our key production lines were almost



fully-utilized. This enabled an efficient compensation of fixed costs, together with new measures designed to improve operating efficiency in productivity.

Bottom line, the Pfleiderer Group generated for the aforementioned reasons a net profit (after tax) of EUR 13.5 million in the 9-month period of 2016 compared to EUR 15.1 million in the same period 2015.

All our strategic Capex projects are well on track and the capital expenditures amounted to EUR 31.8 million in the 9-month period of 2016. At the end of July this year, we launched a new lacquering line in the Grajewo plant as a part of the "4Pack" project. With this investment we will shift commodities into value-added products and will overcome HDF-plant difficulties. In March this year, the "Worktop Line" project in our Wieruszów plant was finalized, where the new press line will allow a boost sales in volume by improvements in the production process, increasing Pfleiderer's competitiveness in the worktop market. Due to growing residential market in Germany, we have invested in Neumarkt EUR 9 million, to increase our production capacity by 10%. The plant in Neumarkt is the biggest particleboard production plant in Europe.

On 15th September, with effect as of 1st November 2016, Mr. Dirk Hardow was appointed Management Board Member, Chief Operating Officer - a big welcome to Dirk!

On the 30th September Pfleiderer Grajewo S.A. has changed the name under which it does business to Pfleiderer Group S.A. and at the same time the Company's registered office has been relocated from Grajewo to Wrocław. The changes made to the Group's corporate structure are of a strategic nature, its structure will become more transparent and as a consequence, the organization will have three tiers. The Group now consists of the holding company that will be responsible for governing the Pfleiderer Group, operating companies and production companies. New organizational structure will streamlined operations and this will foster Group's further development as an international entity.

Our integration efforts are also contributing as expected. "ONE PFLEIDERER" reached all milestones and reported realized savings of EUR 16.4 million to the end of September 2016. The main objective for Q4, 2016 is a strong focus on the Group's internal integration to push faster decision-making processes and a more streamlined operational structure management in order to confirm previously announced cost savings of at least EUR 30 million by the end of 2018. We are working on new growth strategy till 2020, which we would like to present to the capital market at the end of Q1, 2017.

Yours faithfully

Michael Wolff
President of the Management Board

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

**PFLEIDERER GROUP S.A. GROUP
(PREVIOUSLY PFLEIDERER GRAJEWO GROUP)
DIRECTORS' INTERIM CONDENSED CONSOLIDATED REPORT
ON THE OPERATIONS OF THE PFLEIDERER GRAJEWO GROUP
FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2016**

PFLEIDERER GROUP (PREVIOUSLY PFLEIDERER GRAJEWO GROUP)

Directors' Interim Condensed Consolidated Report on the operations of the Pfei- derer Group in the period from January 1 to September 30, 2016

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1. FINANCIAL HIGHLIGHTS

Profit or loss accounts and cash flows

'000 EUR	Jan. 1 - Sept. 30, 2016	Jan. 1 - Sept. 30, 2015
Sales revenue	695,804	279,294
Results from operating activities	23,261	26,078
Profit before taxes	9,712	24,733
Net profit	16,546	19,834
Net profit attributable to equity holders of the parent	16,546	19,834
Net cash provided by operating activities	79,272	26,671
Net cash used in investing activities	-41,279	-13,510
Net cash provided by / used in financing activities	18,349	-12,477
Total net cash flow	56,342	684
Basic earnings per share (in Euro)	0.26	0.40
Diluted earnings per share (in Euro)	0.26	0.40
PLN/EUR average exchange rate	4.3582	4.1560

Total assets and total equity and liabilities

'000 EUR	Sept. 30, 2016	Dec. 31, 2015
Total assets	962,941	397,304
Total liabilities	691,677	117,996
Non-current liabilities	478,609	42,485
Current liabilities	213,068	75,512
Total equity	271,264	279,307
Share capital	6,692	5,573
Outstanding shares at the end of the reporting period	64,701,007	49,624,000
Average outstanding shares (number) for the reporting period	63,655,521	49,624,000
Book value per shares (in Euro, number of shares at period end)	4.19	5.63
PLN/EUR exchange rate as at the reporting date	4.3192	4.2386

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2. INTRODUCTION

Registration of capital from the issue of series E shares

On January 19, 2016, the District Court in Białystok registered the share capital increase of Pfeiderer Group S.A. (former name Pfeiderer 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 July 27, 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 preemptive 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 one share.

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

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

Revolving facility agreement

Moreover, on January 19, 2016, along with the completion of the Capital Group's reorganization, the Parent Company Pfeiderer Group S.A. and the subsidiaries Pfeiderer Prospan S.A., Pfeiderer MDF Sp. z o.o. and Silekol Sp. z o.o. became borrowers under the Revolving Facility Agreement – the "RCF Agreement" - (along with Pfeiderer GmbH and Pfeiderer Holzwerkstoffe GmbH). Moreover on July 8, 2016 two more Polish subsidiaries - Pfeiderer Grajewo Sp. z o.o. and Pfeiderer Polska Sp. z o.o. (previously Pfeiderer Services Sp. z o.o.) - acceded RCF-Agreement.

Pfeiderer Group S.A. (previously Pfeiderer Grajewo S.A.) shareholder structure

On January 21, 2016, Parent Company Pfeiderer Group S.A. received notifications from Atlantik S.A., Pfeiderer Service GmbH and Pfeiderer GmbH concerning the reduction of share in the total number of voting rights at the General Meeting of shareholders of the Company. On January 25, 2016, and February 4, 2016, Parent Company Pfeiderer Group 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.

The shareholder structure directly after Public Offering is as follows:

Shareholder structure	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%
Atlantik 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%
Nationale Nederlanden 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%

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The subsidiaries of Strategic Value Partners LLC directly holding shares of Pfeiderer Group S.A. (previously Pfeiderer Grajewo S.A.) as follows:

Shareholding structure	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Yellow Sapphire 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 Acquisitions S.a.r.l.	248,714	0.38%	248,714	0.38%
Total	16,772,896	25.92%	16,772,896	25.92%

Additionally, Pfeiderer Group S.A. (previously Pfeiderer 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 Sapphire S.a.r.l. (indirect purchase of shares).

The table below presents the change in the structure of the shareholders from December 31, 2015 to the reporting date September 30, 2016:

Changes in the shareholding structure	Sept. 30, 2016		Dec. 31, 2015	
	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	16 772 896	25,92%	0	0,00%
Atlantik S.A.	16 374 497	25,31%	0	0,00%
Nationale Nederlanden OFE	6 400 000	9,89%	2 639 144	5,32%
Avivia OFE Aviva BZ WBK	6 000 000	9,27%	4 928 816	9,93%
Pfeiderer Service GmbH	0	0,00%	32 308 176	65,11%
Other shareholders	19 153 614	29,60%	9 747 864	19,64%
Total	64 701 007	100,00%	49 624 000	100,00%

Until the date of the publication of this report the Company did not receive further information about a change in the structure of the main shareholders.

3. GENERAL INFORMATION

The Pfeiderer Group consists of one-platform enterprises. The Group's parent Company i.e. Pfeiderer Group S.A. (the Parent) operates in Wrocław.

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

The Ordinary General Shareholders' Meeting adopted on June 29, 2016, a resolution on the change of the name and registered office of the Parent. On September 30, 2016, the District Court in Białystok entered into the National Court Register the change of the business name and registered office of the Company. Due to the above registration, the business name of the Company has been changed from "Pfeiderer Grajewo Spółka Akcyjna" to "Pfeiderer Group Spółka Akcyjna" and the registered office has been changed from Grajewo to Wrocław.

Pfeiderer Group 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

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

In connection with the implementation of the resolution No. 8 of the Company's Ordinary General Shareholders' Meeting of June 29, 2016, on the consent to transfer the Company's enterprise, on August 31, 2016, the Company concluded with its subsidiary Pfeiderer Grajewo sp. z o.o., in which the Company is a sole shareholder, an agreement on making contribution in-kind to the increased share capital of Pfeiderer Grajewo sp. z o.o. and related agreement of the transfer of rights of perpetual usufruct to the land and ownership right of buildings (the "Agreements"), on the basis of which the Company transferred to Pfeiderer Grajewo sp. z o.o. the enterprise used for carrying out an operational activity.

The Agreements were concluded in connection with the adoption on August 31, 2016, of the resolution of the Extraordinary Shareholders Meeting of PGPL on the share capital increase of Pfeiderer Grajewo sp. z o.o. to PLN 40,000,000.00, i.e. by the amount of PLN 39,995,000.00 by way of issuing 799,900 new shares with a nominal value of PLN 50.00 each, which were taken up by the Company.

Due to the transfer of the operational activity and its contribution to Pfeiderer Grajewo sp. z o.o., as of September 1, 2016, the Company ceased to conduct the operational activity and became holding company of Pfeiderer Group.

3.1 List of companies of the Pfeiderer Group as at September 30, 2016, with brief description of principal business activity:

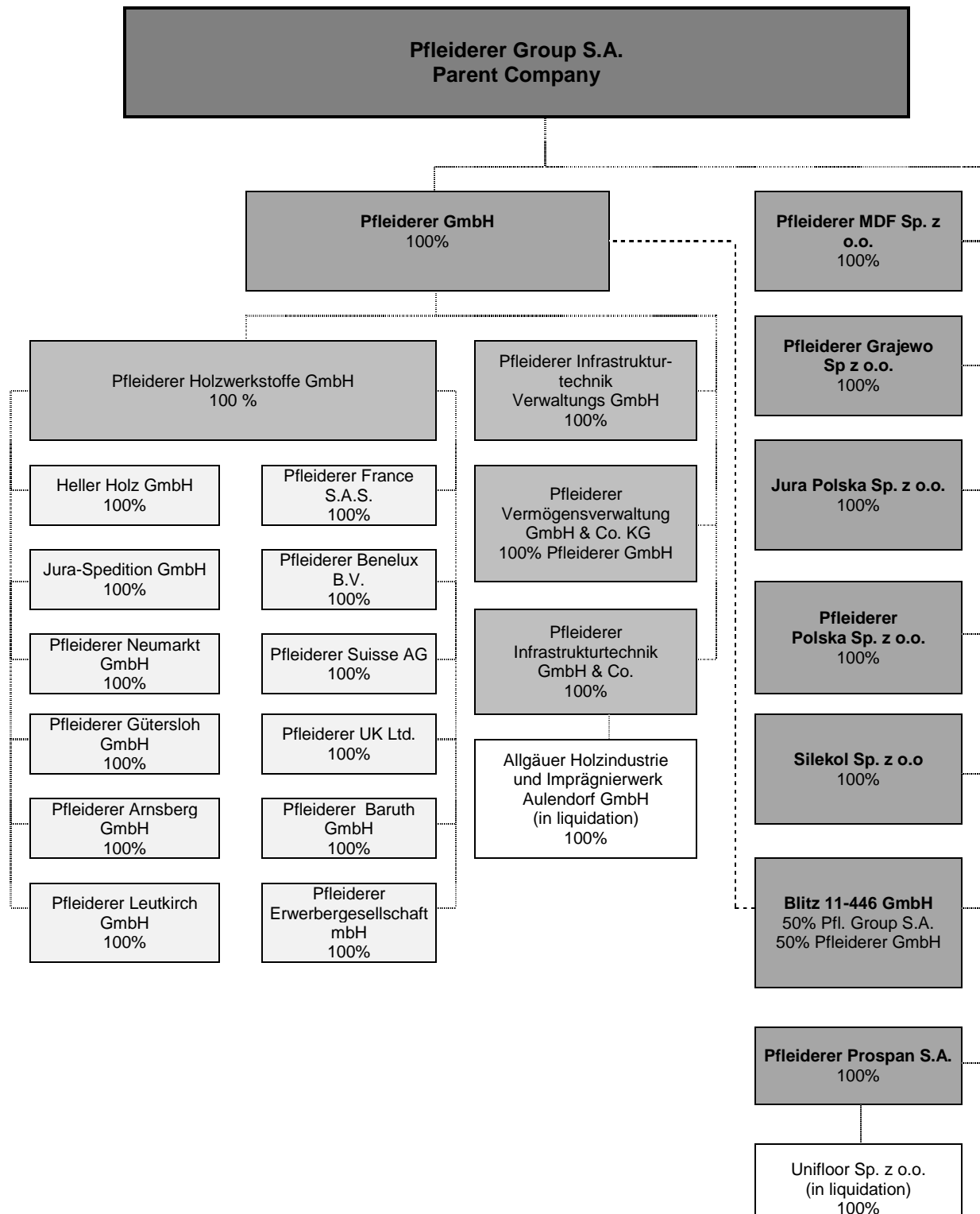
The Pfeiderer Group relies on long-term experience on the market of wood based products. The Group has a strong presence in the Eastern, Western and Central Europe and grows steadily, attempting to enter new markets, targeting new segments as well as adding new products to its portfolio.

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.

As a result of the acquisition of Pfeiderer GmbH by Pfeiderer Group S.A. (as described in details in point 2), the new Group structure was created. Pfeiderer GmbH was the indirect parent of the Parent Company prior to January 19, 2016. The acquisition of the share in Pfeiderer GmbH by the Parent Company was the final part of the process of reorganization of the Capital Group Pfeiderer, as a result of which the Pfeiderer Group S.A. became the Parent Company of Pfeiderer Group. At the end of the reporting period, the structure of the Capital Group is as follows:

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

The business of the Eastern European entities consists of:

**Pfeiderer Group S.A., Wrocław, Poland, the Parent Company being a holding company of Pfei-
derer Group:**

Pfeiderer Grajewo Sp. z o.o., Grajewo, Poland:

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 entry no. KRS 0000621539 on June 3, 2016.

Industry Identification Number (REGON): 364479779
Tax Identification Number: 719-15-68-458
Registered address: Wiórowa 1, PL-19-203 Grajewo, Poland

Principal business activity:

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

Pfeiderer Grajewo sp. z o.o. on August 31, 2016, took over the operational activity conducted previously by Pfeiderer Group S.A. pursuant to the resolution No. 8 of the Ordinary General Meeting of Shareholders of Pfeiderer Group S.A. dated June 29, 2016.

Pfeiderer Prospan S.A., Wieruszów, Poland:

A joint-stock company entered as Zakłady Płyt Wiórowych Prospan S.A. in the Commercial Register maintained by the District Court of Kalisz, under entry no. RHB1754 on September 23, 1997. The company was registered with the District Court of Łódź-Śródmieście in Łódź, 20th Division of the National Court Register, under entry no. KRS 000042082 on September 17, 2001.

Industry Identification Number (REGON): 250744416
Tax Identification Number: 619-17-42-967
Registered address: Bolesławiecka 10, PL-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.

Silekol Sp. z o.o., Kędzierzyn-Koźle, Poland:

A company entered in the National Court Register by the District Court of Opole, VIII Commercial Division of the National Court Register of Opole, under entry no. KRS 0000225788 on January 6, 2005.

Industry Identification Number (REGON): 160003017
Tax Identification Number: 749-19-69-061
Registered address: Mostowa 30K, post box 163, PL-47-220 Kędzierzyn-Koźle, Poland

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

Principal business activity:

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

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- manufacture of glues and gelatines.

Pfleiderer MDF Sp. z o.o., Grajewo, Poland:

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 entry no. KRS 0000174810 on October 9, 2003.

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

Principal business activity:

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

Jura Polska Sp. z o.o., Grajewo, Poland:

A company entered in the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under entry no. KRS 0000149282 on November 24, 1999.

Industry Identification Number (REGON): 276746151
Tax Identification Number (NIP): 629-21-58-514
Registered address: Wiórowa 1, PL-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., Wieruszów, Poland (in liquidation):

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

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

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

Pfleiderer Polska Sp. z o.o., Grajewo, Poland:

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 entry no. KRS 0000247423 on December 20, 2005.

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

Principal business activity:

- non-operative so far,
- intended to become the central Polish sale, supply and service company.

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The business of the Western European entities consists of:

Pfleiderer GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. HR B 30135.

Tax Identification Number: 201/116/20203
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:
▪ holding company for the German entities.

Pfleiderer Holzwerkstoffe GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg Germany, under entry no. HR B 25279.

Tax Identification Number: 201/116/21099
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:
▪ holding company for the German production and the European sales companies,
▪ sales organization for the German production companies,
▪ central sourcing of raw material,
▪ owner and lessor of the major part of property, plant and equipment to the German production com-
panies,
▪ generation and distribution of heat and electricity.

Pfleiderer Neumarkt GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg Germany, under entry no. HR B 19661.

Tax Identification Number: 201 / 116 / 20904
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:
▪ manufacture of particle board,
▪ coating / veneering.

Pfleiderer Gütersloh GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg Germany, under entry no. HR B 19716.

Tax Identification Number: 201 / 116 / 20882
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:
▪ manufacture of particle board,
▪ coating / veneering,
▪ impregnation.

Pfleiderer Leutkirch GmbH, Leutkirch, Germany:

A company entered in the Commercial Register of Ulm, Germany, under entry no. HR B 610151.

Tax Identification Number: 91080/23247
Registered address: Wurzacher Straße 32, 88299 Leutkirch, Germany

Principal business activity:
▪ manufacture of particle board,
▪ manufacture of HPL (High Pressure Laminate) / Elements / Compacts,

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- coating / veneering,
- impregnation.

Pfleiderer Arnsberg GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. HR B 21658

Tax Identification Number: 201/116/21072
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

- manufacture of particle board,
- manufacture of HPL (High Pressure Laminate) / Elements / Compacts,
- coating / veneering,
- impregnation.

Pfleiderer Baruth GmbH, Baruth, Germany:

A company entered in the Commercial Register of Potsdam, Germany, under entry no. HR B 12965 P.

Tax Identification Number: 201 / 116 / 21153
Registered address: An der Birkenpfehlheide 3, 15837 Baruth/Mark, Germany

Principal business activity:

- manufacture of HDF/MDF.

Heller Holz GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. HR B 21788.

Tax Identification Number: 201 / 116 / 20963
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

- purchasing and distribution of recycled wood and other wood.

JURA-Spedition GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. HR B 19659.

Tax Identification Number: 201 / 116 / 20890
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

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

Pfleiderer Erwerbergesellschaft mbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. HR B 32971.

Tax Identification Number: 201 / 116 / 21277
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

- dormant company

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Pfleiderer France S.A.S., Reims, France:

A company entered in the Commercial Register of Reims, France, under entry no. 441480530 RCS.

Tax Identification Number: 312919
Registered address: 12 Rue Clement Ader, 51100 Reims, France

Principal business activity:

- sales agency.

Pfleiderer Benelux B.V., Deventer, Netherlands:

A company entered in the Commercial Register of Brabant, Netherlands, under entry no. 8082957.

Tax Identification Number: 808535920
Registered address: De Ketting 16 a, 5261 LJ Vught, Netherlands

Principal business activity:

- sales agency.

Pfleiderer Suisse AG, Rapperswil, Switzerland:

A company entered in the Commercial Register of St. Gallen, Switzerland, under entry no. CH-320.3.043.856-5.

Tax Identification Number: 17966
Registered address: Neue Jonastrasse 60, 8640 Rapperswil SG, Switzerland

Principal business activity:

- sales agency.

Pfleiderer UK Ltd., Macclesfield, United Kingdom:

A company entered in the Commercial Register of United Kingdom, under entry no. 01330499.

Tax Identification Number: 168 601 8948
Registered address: Oakfield House, Springwood Way, Tytherington Business Park, Macclesfield, Cheshire SK 10 2XA. Great Britain

Principal business activity:

- sales agency.

Pfleiderer Vermögensverwaltungs GmbH & Co. KG, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. H RA 16384.

Tax Identification Number: 235 / 172 / 07004
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

- holding company.

Pfleiderer Infrastrukturtechnik GmbH & Co. KG, Düsseldorf (in insolvency), Germany:

A company entered in the Commercial Register of Düsseldorf, Germany, under entry no. HR A 21946.

Tax Identification Number: 235 / 186 / 00109
Registered address: Cecilienallee 54/55, 40474 Düsseldorf, Germany

Principal business activity:

- the company has suspended its operations.

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Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH, Düsseldorf (in insolvency), Germany:

A company entered in the Commercial Register of Düsseldorf, Germany, under entry no. HR B 67504.

Tax Identification Number: 201 / 116 / 20467
Registered address: Cecilienallee 54/55, 40474 Düsseldorf, Germany

Principal business activity:
▪ the company has suspended its operations.

Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH, Aulendorf (in liquidation), Germany:

A company entered in the Commercial Register of Ulm, Germany, under entry no. HR B 600102.

Tax Identification Number: unknown
Registered address: unknown

Principal business activity:
▪ the company has suspended its operations and is in liquidation.

Blitz 11-446 GmbH, Neumarkt, Germany:

A company entered in the Commercial Register of Nürnberg, Germany, under entry no. HR B 28166.

Tax Identification Number: 201/116/21366
Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:
▪ the company has suspended its operations.

3.2 Composition of Company's Management Board and Supervisory Board and changes therein in the reporting period

As at September 30, 2016, the composition of the Pfeiderer Group S.A. Management Board was as follows:

Michael Wolff	President of the Management Board
Richard Mayer	Member of the Management Board
Rafał Karcz	Member of the Management Board
Wojciech Gątkiewicz	Member of the Management Board

The Company's Supervisory Board elected on March 2, 2016, Mr. Richard Mayer to the Management Board and entrusted him a function of Member of the Management Board – Chief Financial Officer (CFO) and changed the function of Mr. Rafał Karcz in the Management Board by recalling Mr. Rafał Karcz from a function of Member of Management Board – Chief Financial Officer (CFO) and appointing him a function of Member of Management Board – Chief Administration Officer (CAO).

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

Mr. Gerd Schubert, performing the function of Member of the Management Board of the Company, Chief Operating Officer until the date hereof, was recalled from the Company's Management Board on June 1, 2016.

On September 15, 2016, with effect as of November 1, 2016, Mr. Dirk Hardow was appointed the Member of Management Board of the Company, Chief Operating Officer.

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As at September 30, 2016, the composition of the Supervisory Board was as follows:

Zbigniew Prokopowicz	Chairman of the Supervisory Board
Michael F. Keppel	Vice-Chairman of the Supervisory Board
Jason Clarke	Vice-Chairman of the Supervisory Board
Krzysztof Sędzikowski	Member of the Supervisory Board
Jan Woźniak	Member of the Supervisory Board
Stefan Wegener	Member of the Supervisory Board
Tod Kersten	Member of the Supervisory Board

Mr. Richard Mayer (Member of the Supervisory Board of the Company), Mr. Gerd Hammerschmidt (Member of the Supervisory Board of the Company) and Jochen Schapka (Member of the Supervisory Board of the Company) submitted their resignation from their respective positions of the Company's Supervisory Board on January 19, 2016.

Mr. Zbigniew Prokopowicz, Mr. Krzysztof Sędzikowski and Mr. Stefan Wegener were appointed to the Company's Supervisory Board on February 19, 2016.

Mr. Christoph Mikulski (Member of the Supervisory Board of the Company) submitted his resignation from the position of the Company's Supervisory Board on June 22, 2016. Mr. Paolo G. Antonietti (Chairman of the Supervisory Board) resigned from the position of the Chairman of the Company's Supervisory Board on June 23, 2016. Their resignations became effective as of the date of appointment of new members in their place by the General Meeting of Shareholders. Mr. Jason Clarke and Mr. Tod Kersten have been appointed to Company's Supervisory Board on June 29, 2016. The Company's Supervisory Board elected from its members Mr. Zbigniew Prokopowicz as the Chairman of the Company's Supervisory Board on June 29, 2016.

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4. STRUCTURE OF THE GROUP

Pfleiderer Group S.A. is the Parent Company with respect to the following subsidiaries:

		Sep. 30, 2016	Dec. 31, 2015
Eastern Europe			
Jura Polska Sp. z o.o.	Grajewo	100.00%	100.00%
Pfleiderer Grajewo Sp. z o.o.	Grajewo	100.00%	0.00%
Pfleiderer MDF Sp. z o.o.	Grajewo	100.00%	100.00%
Pfleiderer Prospan S.A.	Wieruszów	100.00%	100.00%
Pfleiderer Polska Sp z o.o. (previously Pfeiderer Services Sp. z o.o.)	Grajewo	100.00%	100.00%
Silekol Sp. z o.o.	Kędzierzyn-Koźle	100.00%	100.00%
Unifloor Sp. z o.o. w likwidacji	Wieruszów	100.00%	100.00%
Western Europe			
Pfleiderer GmbH, Neumarkt	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Holzwerkstoffe GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Neumarkt GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Gütersloh GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Leutkirch GmbH	Leutkirch, Germany	100.00%	0.00%
Pfleiderer Erwerbergesellschaft mbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Arnsberg GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Baruth GmbH	Baruth, Germany	100.00%	0.00%
Heller Holz GmbH	Neumarkt, Germany	100.00%	0.00%
JURA-Spedition GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer France S.A.S.	Reims, France	100.00%	0.00%
Pfleiderer Benelux B.V.	Deventer, Netherlands	100.00%	0.00%
Pfleiderer Suisse AG	Rapperswil, Switzerland	100.00%	0.00%
Pfleiderer UK Ltd.	Macclesfield, United Kingdom	100.00%	0.00%
Pfleiderer Vermögensverwaltung GmbH & Co. KG	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Infrastrukturtechnik GmbH & Co. KG (in Insolvenz)	Düsseldorf, Germany	100.00%	0.00%
Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH (in Insolvenz)	Düsseldorf, Germany	100.00%	0.00%
Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH (i.L.)	Aulendorf, Germany	100.00%	0.00%
Blitz 11-446 GmbH	Neumarkt, Germany	100.00%	50.00%

Changes in the Group's structure in the reporting period

Acquisition of subsidiary

On January 19, 2016, Pfeiderer Group S.A. acquired from Atlantik S.A. the only share in Pfeiderer GmbH and its subsidiaries, representing 100% of the share capital and authorizing the exercise of 100% of voting rights at the general meeting of shareholders. The purchase price amounted to EUR 257,403 thousand. The acquisition was an integral part of project "ONE Pfeiderer" aimed at creation a fully integrated Capital Group.

Consideration transferred

The acquisition-date-fair value of the total consideration was EUR 261,707 thousand (PLN 1,164,215 thousand). The consideration compiled as follows:

- EUR 119,353 thousand – cash payments.
- EUR 7,375 thousand – non-cash settlement, the amount which was settled through reduction of the purchase price and it represents a surplus of transaction costs over the limit in the amount of EUR 11.0 million agreed with Atlantik S.A.
- EUR 134,979 thousand - non-cash settlement, assumption of obligation of Atlantik S.A. due to Pfeiderer Service GmbH representing proceeds from sale of Pfeiderer Grajewo S.A. shares held by Pfeiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A. .

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The consideration was reduced by the amount of the effective portion of cash flow hedge of EUR 4,304 thousand.

'000 EUR	
Cash consideration	261,707
Effective portion of cash flow hedge - gains	-4,304
Consideration	257,403

Acquisition-related costs

The Group incurred acquisition related costs of EUR 3,274 thousand (PLN 14,469 thousand) on legal fees and advisory costs of which EUR 865 thousand (PLN 3,643 thousand) was incurred in the previous year (2015) and the remaining costs of EUR 2,409 thousand (PLN 10,826 thousand) have been incurred in the current reporting period. The costs were recognized as general and administrative expenses in profit or loss in the periods in which these expenses were incurred.

Identifiable assets and liabilities assumed

Since the acquisition occurred only in January 2016 the determination of fair values of acquired assets and liabilities has not been finalized yet and thus has been recorded on a provisional basis. The fair value of the acquired assets and liabilities on a provisional basis:

'000 EUR	Fair value
Intangible assets	96,116
Property, plant and equipment	396,012
Inventories	59,858
Receivables (incl. "PSG-claim" of EUR 134,979k)	145,195
Cash and cash equivalents	109,661
Other assets (incl. tax receivables)	15,341
Deferred tax assets	47
Total assets	822,230
Pension provisions	-49,911
Other provisions	-5,532
Financial liabilities	-343,662
Trade payables	-65,152
Other liabilities (incl. intercompany)	-59,219
Tax liabilities	-9,866
Deferred tax liabilities	4,547
Total liabilities	-528,795
Deferred tax assets	8,075
Deferred tax liabilities	-83,248
Deferred taxes on fair value adjustments	-75,173
Total identifiable net assets acquired	218,262

Goodwill

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

Goodwill in the amount of EUR 39,141 thousand arising from acquisition has been recognized as follows (on a provisional basis):

'000 EUR	Acquired net assets (fair value)	Consideration transferred	Residual goodwill
Determination of goodwill	218,262	257,403	39,141

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None of the goodwill recognized is expected to be deductible for tax purposes.

The amounts of revenue and profit of the Pfeiderer GmbH since the acquisition date included in the consolidated statement of profit and loss and other comprehensive income for the nine month period ended September 30, 2016, are as follows:

- Revenue: EUR 466,229 thousand
- Profit: EUR 1,184 thousand

The revenue and profit of the combined entity for the current reporting period as though the acquisition date for the business combination that occurred during the year had been as of January 1, 2016, is as follows:

- Revenue: EUR 726,618 thousand
- Profit: EUR 13,534 thousand

5. PFLEIDERER GROUP S.A. SHARES HELD BY ITS MANAGEMENT AND SUPERVISORY BOARDS MEMBERS

In the period from January 1, 2016 to the date of this Director's Interim Condensed Consolidated Report, the number of the Company's shares held by its members of the Management and Supervisory Boards has not changed as in comparison to the end of the prior financial year and as for the date of this Director's Interim Condensed Consolidated Report was as follows:

Function	Name	Number of shares
Member of the Management Board	Wojciech Gątkiewicz	5,400
Member of the Management Board	Rafał Karcz	3,472

As at September 30, 2016 other members of the Management and Supervisory Boards did not hold any shares of the Parent Company.

6. ESSENTIAL INFORMATION TO ASSESS GROUP'S PERSONNEL SITUATION, FINANCIAL STANDING AND PERFORMANCE, AND ITS CHANGES, AS WELL AS TO ASSESS GROUP'S ABILITY TO FULFIL ITS OBLIGATIONS

a. Financial standing of the Pfeiderer Group

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

'000 EUR	Sept. 30, 2016	Dec. 31, 2015
Equity (attributable to owners of the Company)	271,264	279,307
Total equity	271,264	279,307
Non-current liabilities	478,609	42,485
Long-term capital (total equity + non-current liabilities)	749,872	321,792
Current liabilities	213,068	75,512

Pfeiderer Group finances its operations through own funds as well as a revolving credit facility and a so-called High Yield Bond. On January 19, 2016, an amendment to Revolving Credit Facility Agreement came into force which provided Pfeiderer Group S.A. and Polish material subsidiaries the limit of PLN 200 million (Tranche B) for financing of working capital and other corporate needs. Moreover on July 8, 2016 next two Polish subsidiaries Pfeiderer Grajewo Sp. z o.o. and Pfeiderer Polska Sp. z o.o. (previously Pfeiderer Services Sp. z o.o.) acceded RCF-Agreement. At the balance sheet date this financing wasn't drawn in cash form while some bank guarantees and letter of credits were issued within this line for the total amount of EUR 143 thousand and PLN 6,559 thousand. The Revolving Credit Facility

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Agreement provides Pfeleiderer Holzwerkstoffe GmbH and Pfeleiderer GmbH with up to EUR 60.0 million (Tranche A). This Tranche A is partially drawn by bank guarantees with EUR 2,097 thousand and PLN 1,040 thousand (EUR 241 thousand). Pfeleiderer GmbH issued Senior Secured Notes with EUR 321,684 thousand in July 2014 which is due 2019. The total credit limit available under the facilities and the bond secures the financial liquidity of the Parent Company and its subsidiaries.

As at September 30, 2016, the Group's financial liabilities totalled EUR 335,102 thousand (previous year: EUR 14,696 thousand). The financial liabilities consist mainly of the High Yield Bond with EUR 330,555 thousand (previous year EUR 0) plus accrued interest for the High Yield Bond with EUR 4,222 thousand (previous year EUR 0).

For detailed information on the bank loans see Note 11 in this Condensed Consolidated Report.

Moreover, the Polish companies of the Group are party to factoring agreements without recourse rights within which the insured receivables are sold to PEKAO Faktoring Sp. z o.o. and BZ WBK Faktor Sp. z o.o. This financing facility is available for Pfeleiderer Grajewo Sp. z o.o., Pfeleiderer MDF Sp. z o.o., Pfeleiderer Prospan S.A., Pfeleiderer Grajewo Sp. z o.o. as well as Silekol Sp. z o.o. for the aggregate amount, which may not exceed PLN 265,000 thousand. The factoring agreements with BZ WBK Faktor Sp. z o.o. are concluded for an indefinite period, while the terms of the agreements with PEKAO Faktoring Sp. z o.o. are definite for 1 year. Agreements are automatically rolled by another 12 months if neither party notifies the other party of its intention not to extend an agreement, provided that such notice will be sent no later than two months before the expiry of a given agreement.

The German companies - Pfeleiderer Holzwerkstoffe GmbH, Pfeleiderer Arnsberg GmbH, Pfeleiderer Neu-
markt GmbH, Pfeleiderer Leutkirch GmbH, Pfeleiderer Gütersloh GmbH, Jura - Spedition GmbH and Heller
Holz GmbH - are party to an Asset Backed Commercial Paper Transaction Structure without recourse
rights. The aforementioned companies sell their insured trade receivables to Wood Finance Inc., Grand
Cayman / Cayman Islands within the scope of the Receivables Purchase Agreement up to a volume of
EUR 60.0 million (Transaction Limit).

The internal financing in the Polish part of the Pfeleiderer Group comprises mainly loans advanced by
Pfeleiderer Group S.A. to its subsidiary Pfeleiderer MDF Sp. z o.o. as well as short-term bond program
(commercial papers). The bonds are usually issued by Pfeleiderer Group S.A. and purchased by Pfeleiderer
Prospan S.A. The aim of bond program as well as borrowings agreements with related parties is to fi-
nance and optimization of liquidity management within the entire Group.

The internal financing in the German part of the Group is conducted by intercompany loans and a cash-
pool.

b. Revenues from sales and financial results

Revenues from sales of the Group in the period from January 1 to September 30, 2016, amounted to
EUR 695,804 thousand compared to EUR 279,294 thousand the same period of the previous year. The
increase is to be attributed to the first consolidation of Pfeleiderer GmbH and its subsidiaries on January
19, 2016:

'000 EUR	Sept. 30, 2016	Sept. 30, 2015
Western Europe	470,415	0
Eastern Europe	251,635	279,294
Consolidation	-26,246	0
Net revenue	695,804	279,294

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The table below presents revenues by product group:

	Jan. 1 - Sept. 30, 2016		Jan. 1 - Sept. 30, 2015	
	'000 Euro	%-share	'000 Euro	%-share
Chipboards	453,897	65.2%	171,323	61.3%
MDF/HDF-Boards	82,493	11.9%	30,910	11.1%
HPL / Elements	111,955	16.1%	7,731	2.8%
Glues	29,932	4.3%	34,795	12.5%
Other	6,862	1.0%	7,805	2.8%
Sale of products	685,139	98.5%	252,564	90.4%
Electricity	24,998	3.6%	0	0.0%
Merchandise and materials	2,670	0.4%	3,422	1.2%
Other (incl. intercompany sales, sales deductions)	-17,002	-2.4%	23,308	8.3%
Other incl. sales deductions	10,666	1.5%	26,730	9.6%
Total revenue	695,804	100.0%	279,294	100.0%

Chipboards = raw boards, melamine-faced boards, fibre mats
MDF/HDF-Boards = raw and laminated MDF and HDF, fibre mats
Glues = basic resin, specialised resin
Other = films, foils, edge banding, packaging, and other

Percental shares of product- and other sales changed due to the new Group-structure. Approximately two-thirds of the Group revenues are now generated by the Western European segment and one-third from the Eastern European segment. Electricity sales came from the three power plants in Germany. The significant increase in HPL / Elements sales is attributable almost entirely on the acquired German companies.

The gross margin increased from 19.6% to 23.3% of net sales due to a growing share of value-added products.

The operating profit EUR 23,261 thousand is thus hardly comparable to the prior year's operating profit (EUR 26,078 thousand) and burdened by several non-sustainable items as well as accounting-related issues with no cash-impact (e.g. additional depreciation and amortization on fair value adjustments on tangible and intangible assets (EUR 19,890 thousand) and the release of the fair value adjustments on inventories (EUR 2,345 thousand) and order backlog (EUR 1,712 thousand)).

All-in-all the Group generated net profits with EUR 16,546 thousand compared to EUR 19,834 thousand in the last year's period.

c. Group's HR and payroll issues

As at September 30, 2016, the number of headcounts of the Group was 3,486 (Full Time Equivalents, "FTE", including apprentices) including management as well as employees hired based on managerial agreements or appointed by the Supervisory Board (as at December 31, 2015, 3,463 FTE).

The Group's employment structure as at the end of the reporting period:

Full time equivalents (FTE)	Sept. 30, 2016	Dec. 31, 2015
Western Europe	2,229	2,194
Eastern Europe	1,257	1,269
Total	3,486	3,463

According to the new organizational structure the Management Board consists of Michael Wolff (President and CEO), Dirk Hardow (COO, appointed on September 15, 2016 with effect as of November 1, 2016), Rafal Karcz (CAO), Richard Mayer (CFO) and Wojciech Gatkiewicz (CSO).

For the German members of the Board a split contract is in place. They receive two-thirds of their fixed remuneration in Germany and by a service contract one third paid out in Poland. The remuneration of the

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German members is to pay out in Euro.

The Polish Board members are paid totally in Polish PLN in Poland.

The yearly target remuneration at 100% target achievement of the German Board Members total EUR 2,075 thousand and of Polish Board Members at PLN 2,719 thousand.

The contracts of the German Board Members are limited contracts, Michael Wolff's contract ends December 31, 2017 and Richard Mayer's contract ends December 31, 2018. In case of termination before end of the term all German Board Members are entitled of a severance payment of their fixed monthly salary for the rest of their term, at maximum 20 months. By Supervisory Board resolution Dr. Gerd Schubert was removed from office as managing director of Pfeiderer GmbH since June 2, 2016. His contract is therefore terminated as per July 31, 2016.

The managerial contract between Pfeiderer Group S.A. and Wojciech Gałkiewicz, a member of the Management Board, was concluded for an unlimited period with a notice period of 12 months first time June 2016. Based on the agreement in case of termination of his contract Wojciech Gałkiewicz is entitled to get remuneration for the period until the end of his notice period.

The contract of Rafał Karcz is also unlimited with a notice period of 12 months but December 2018 at earliest time. The managerial contract of Rafał Karcz provides, in case of termination of the contract prior to December 31, 2018, a contractual penalty amounting to twice the basic salary in effect as at the date of the termination of the contract and the number of months in the period from the date of the termination of this contract to December 31, 2019, which would have constituted the date of termination of the contract had the notice of termination of the Agreement been submitted by the Company on December 31, 2018 .

Remuneration paid to members of the Supervisory Board of Pfeiderer Grajewo S.A. for the period from 1 January to September 30, 2016 amounted to EUR 405 thousand (prior year EUR 122 thousand).

7. MATERIAL RELATED-PARTY TRANSACTIONS

For the information regarding related-party transactions as at September 30, 2016 and for the period from January 1 to September 30, 2016, see Note 15 in supplementary notes to the interim condensed consolidated financial statements of the Pfeiderer Group Group.

In the period from January 1 to September 30, 2016, all related-party transactions were executed on an arm's length basis.

8. FINANCIAL INSTRUMENTS

a. Overview of financial instruments

a) Derivative instruments

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

The Group applies hedge accounting, which results in that the effective portion of gains or losses on fair value of hedging instruments (forward transactions) is included in other operating income and presented as a separate equity position "cash flow hedge". The gains or losses previously recognized in other operating income are transferred to profit or loss for the current period over the same period and in the same position in which the hedged cash flows are recognized in the statement of comprehensive income. The ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The effective portion of cash flow hedge with respect to the firm purchase commitment to acquire shares in Pfeiderer GmbH was included in the amount of goodwill recognized on the acquisition date.

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b) Borrowings

As at September 30, 2016, the Group did not carry any borrowings from related parties.

c) Bank loans and corporate bonds

On June 26, 2013, the Parent Company and the subsidiaries: Pfeiderer 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. and Bank Zachodni WBK S.A. The total credit limit available under the facilities provided by those banks amounts to PLN 260,000 thousand and secures the financial liquidity of the Parent Company and its subsidiaries. All these bank lines were repaid fully on February 11, 2016, by owned cash surplus and replaced by new RCF agreement with consortium of 4 German and 4 Polish banks with sublimit for Pfei-derer Group S.A. and Polish material subsidiaries amounting to 200 million PLN and for Pfeiderer GmbH and Pfeiderer Holzwerkstoffe GmbH amounting to EUR 60 million. On June 27, 2014, Pfeiderer GmbH issued a 7.875% Senior Secured Notes due 2019 with a face value of EUR 321,684 thousand.

Credit agreements for special purposes:

Investment facility agreement with PKO BP S.A.

On January 15, 2007, Pfeiderer 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. This bank loan was repaid fully on February 11, 2016.

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

On August 29, 2007, Pfeiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 65,000 thousand multi-purpose facility agreement with PKO BP S.A. The original value of the loan amounted to PLN 65,000 thousand and involved overdraft of PLN 30,000 thousand, working overdraft facility of PLN 30,000 thousand as well as limit on guarantees and letters of credit in the amount of PLN 5,000 thousand.

Under the amendment, the amount of the multi-purpose facility loan was reduced to PLN 54,000 thousand.

On June 10, 2015, Pfeiderer MDF Sp. z o.o., a subsidiary, signed an amendment to the multi-purpose facility agreement with PKO BP S.A. According to the amendment, the terms of multi-purposes facility agreement was extended until May 31, 2018. This bank loan was repaid fully on February 11, 2016.

For information on the interest rates applicable to the loans please refer to Note 11 of supplementary notes to the interim condensed consolidated financial statements of the Group.

b. Financial risk related to the Group's operations

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

The Group manages all types of financial risk described below which may have a significant effect on its future operations; in particular, the Group puts emphasis on management of:

- credit risk,
- market risk, including interest rate risk and currency risk,
- liquidity risk.

The aim in management of credit risk is to minimise the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In order to reduce the risk of customers' insolvency, the Group insures receivables to a highest possible extend.

The purpose of market risk management is to reduce the unfavourable effects of changes in market risk to set appropriate risk limits and controls and to monitor risks and adherence to limits. The objective of

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currency risk management is to minimise losses arising from unfavourable changes in foreign exchange rates. The Group monitors its currency position in order to protect its cash flows. To manage the currency risk, the Group primarily relies on natural hedging and, where necessary, 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 is achieved through regular projection of debt levels for a five-year horizon and arrangement of appropriate financing.

b) Credit risk

In accordance with the Management Board's policy, credit risk exposure is monitored on an ongoing basis. Credit rating is carried out in relation to all customers who required credit over the limits granted.

The credit risk which relates to trade receivables is limited due to the large and diversified customer base. Moreover, the Group runs a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of insurance and factoring agreements. As at September 30, 2016, approx. 90% of total trade receivables from non-related parties were covered with credit insurance in Eastern Europe and in Western Europe approx. 96%. Insurance agreement secures credit risk and in the event of non-payments, insurance company covers the losses (the Group's own share in these losses is 10% in Eastern Europe and in general 20% for domestic customers and 10% for abroad customers in Western Europe.

In the period from January 1 to September 30, 2016, the Group did not incur any significant losses resulting from failure to collect receivables from customers. Based on detailed analysis allowances are recognised on uninsured receivables, as well as on the own share in losses.

c) Interest rate risk

The Group holds cash at banks and has liabilities under bank borrowings, under Factoring Agreements and under Senior Secured Notes (High Yield Bond). Interest rate risk relates to the cash flow of interests related with financial liabilities dependent on the floating interest rates. Group did not hedge against the interest rate risk.

d) Currency risk

The Group is exposed to currency risk through trade transactions denominated in foreign currencies, including both purchases of materials and merchandise, and sales of finished goods. Therefore, in the event of any exchange rate fluctuations the exchange gains and losses are partially offset. The Group monitors its currency position on an ongoing basis and if needed, primarily relies on natural hedging and, where necessary, forward, swap contracts. The Group monitors its risk exposure in terms of cash flow.

In the nine months period of 2016, the Group entered into a number of EUR/PLN forward contracts to hedge against currency risk related to contracted or planned trade transactions (sale of products, purchase of raw materials, capital expenditures in foreign currencies). As at September 30, 2016, the Group possessed 35 open EUR/PLN forward contracts with an exposure amounting to EUR 40,250 thousand. The fair value of the open contracts amounted to EUR 1,225 thousand (asset)

e) Liquidity risk

The Parent Company and its subsidiaries are protected against any material distortion of cash flow, thanks to extensive credit facilities available at any time. All extraordinary expenditures are always planned in advance and applied in the management process.

As at September 30, 2016, the Group possessed debt under bank borrowings and senior secured notes of EUR 335,102 thousand – mainly from the senior secured notes with a book value of EUR 330,555 thousand and a face value of EUR 321,684 thousand, due 2019 and on the same time, it also had unused credit facilities of PLN 190,732 thousand and EUR 57,662 thousand. In addition, the Group also held cash of EUR 77,073 thousand.

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The Group maintains full payment capacity as well as a relatively high creditworthiness in the assessment of the key lenders. Consequently, even taking into account the possible deterioration of macroeconomic conditions, in the management assessment, there are no possible material liquidity risk factors.

The exposure to the currency, credit and interest rate risks did not materially change from the release of the Group's most recent full-year report for 2015 financial year.

9. SECURITY OVER THE GROUP'S ASSETS

A) Security Relating to the members of the Group established in Poland

As at September 30, 2016, certain members of the Group have established the following security for the repayment of claims of Commerzbank Aktiengesellschaft, Filiale Luxemburg acting as security agent (the "**Security Agent**") arising from the parallel debt in accordance with the intercreditor agreement dated July 4, 2014 (as amended and restated) entered into in connection with the EUR 60,000,000 and PLN 200,000,000 revolving facilities agreement dated July 4, 2014 (as amended and restated) among, *inter alios*, Pfeiderer Group S.A. and certain of its subsidiaries as borrowers, the Security Agent and certain financial institutions as original lenders and EUR 321,684,000 (nominal value) 7.875% senior secured notes due 2019 issued by Pfeiderer GmbH:

9.1. Security interest over shares

Pfeiderer Group S.A. has entered into the agreements for financial and registered pledges over shares in Pfeiderer Prospan S.A., Pfeiderer MDF sp. z o.o., Pfeiderer Grajewo Sp. z o.o., Pfeiderer Polska Sp. z o.o. and Silekol sp. z o.o. and has granted powers of attorney to exercise corporate rights from the pledged shares in these companies in favour of the Security Agent. The registered pledges over shares were established up to the maximum secured amount of EUR 1,286,228,472.

9.2. Security interest over receivables under bank account agreements

Pfeiderer Group S.A., Pfeiderer Prospan S.A., Pfeiderer MDF sp. z o.o. , Pfeiderer Grajewo Sp. z o.o., Pfeiderer Polska Sp. z o.o. and Silekol sp. z o.o. have entered into the agreements for financial and registered pledges over bank accounts and have granted the powers of attorney to dispose funds from their bank accounts in favour of the Security Agent. The registered pledges over bank accounts were established up to the maximum secured amount of EUR 1,286,228,472.

9.3. Pledges over movable assets and rights

Pfeiderer Group S.A., Pfeiderer Prospan S.A., Pfeiderer MDF sp. z o.o. , Pfeiderer Grajewo Sp. z o.o., Pfeiderer Polska Sp. z o.o. and Silekol sp. z o.o. have entered into the agreements for registered pledges over movable property and rights (*zbiór rzeczy ruchomych i praw*). The registered pledges over movable property and rights were established up to the maximum secured amount of EUR 1,286,228,472.

9.4. Assignments of rights under commercial contracts, intercompany loan agreements and insurance agreements

Pfeiderer Group S.A., Pfeiderer Prospan S.A., Pfeiderer MDF sp. z o.o. , Pfeiderer Grajewo Sp. z o.o., Pfeiderer Polska Sp. z o.o. and Silekol sp. z o.o. have entered into the agreements for security assignment of rights under commercial contracts, intercompany loan agreements and insurance agreements.

9.5. Mortgages

The following mortgages up to the amount of EUR 1,286,228,472 (each) have been established in favour of the Security Agent:

- (a) Mortgage over properties and perpetual usufructs of Pfeiderer Grajewo Sp. z o.o. in Rajgród and Grajewo;
- (b) Mortgage over properties and perpetual usufructs of Pfeiderer Prospan S.A. in Wieruszów and Klatka;
- (c) Mortgage over perpetual usufructs of Pfeiderer MDF Sp. z o.o. in Grajewo; and

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(d) Mortgage over properties and perpetual usufructs of Silekol Sp. z o.o. in Kędzierzyn-Koźle.

9.6. Submissions to enforcement

Pfleiderer Group S.A., Pfeiderer Prospan S.A., Pfeiderer MDF sp. z o.o. , Pfeiderer Grajewo Sp. z o.o., Pfeiderer Polska Sp. z o.o. and Silekol sp. z o.o. have executed the submissions to enforcement (*oświadczenie o poddaniu się egzekucji*) in favour of the Security Agent up to the amount of EUR 1,286,228,472.

B) Security Relating to the members of the Group established in Germany

As at September 30, 2016, certain members of the Group have established the following securing the liabilities under the senior secured revolving credit facility of EUR 60,000,000 and PLN 200,000,000 as well as the liabilities under Pfeiderer GmbH EUR 321,684 thousand 7.875% Senior Secured Notes due 2019 and certain hedging arrangements.

9.7. Security interest over shares

Pfleiderer Group S.A., Pfeiderer GmbH, Pfeiderer Holzwerkstoffe GmbH and Pfeiderer Vermögensverwaltung GmbH & Co. KG as pledgors have granted pledges over shares in Pfeiderer GmbH, Pfeiderer Holzwerkstoffe GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH, Pfeiderer Gütersloh GmbH, Pfeiderer Arnsberg GmbH, Pfeiderer Baruth GmbH and Jura-Spedition GmbH and over partnership interests in Pfeiderer Vermögensverwaltung GmbH & Co. KG.

9.8. Security interest over bank accounts

Pfleiderer GmbH, Pfeiderer Holzwerkstoffe GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH, Pfeiderer Gütersloh GmbH, Pfeiderer Arnsberg GmbH, Pfeiderer Baruth GmbH, Jura-Spedition GmbH and Pfeiderer Vermögensverwaltung GmbH & Co. KG as pledgors have granted pledges over their bank accounts.

9.9. Security interest over receivables

Pfleiderer GmbH, Pfeiderer Holzwerkstoffe GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH, Pfeiderer Gütersloh GmbH, Pfeiderer Arnsberg GmbH, Pfeiderer Baruth GmbH, Jura-Spedition GmbH and Pfeiderer Vermögensverwaltung GmbH & Co. KG as assignors have assigned as security their receivables under the intercompany loans, trade and insurance receivables.

9.10. Security interest over moveable assets

Pfleiderer Holzwerkstoffe GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH, Pfeiderer Arnsberg GmbH and Pfeiderer Baruth GmbH as transferors have transferred as security their moveable assets (including, plant and machinery, inventory).

9.11. Security interest over intellectual property

Pfleiderer GmbH, Pfeiderer Holzwerkstoffe GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH and Pfeiderer Arnsberg GmbH as assignors have assigned as security their intellectual property rights.

9.12. Mortgages

Land charges (*Grundschulden*) over real estate owned by Pfeiderer Holzwerkstoffe GmbH and Pfeiderer Baruth GmbH have also been granted as security.

C) Guarantees by the members of the Group

As at September 30, 2016, certain members of the Group have guaranteed the liabilities under the senior secured revolving credit facility of EUR 60,000,000 and PLN 200,000,000 as well as the liabilities under

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7.875% senior notes of EUR 321,684,000 issued by Pfeiderer GmbH and due in 2019, such members of the Group are: Pfeiderer Group S.A., Pfeiderer GmbH, Pfeiderer Holzwerkstoffe GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH, Pfeiderer Gütersloh GmbH, Pfeiderer Arnberg GmbH, Pfeiderer Baruth GmbH, Jura-Spedition GmbH, Pfeiderer Vermögensverwaltung GmbH & Co. KG, Pfei-derer Prospan S.A., Pfeiderer MDF sp. z o.o., Pfeiderer Grajewo Sp. z o.o., Pfeiderer Polska SP. z o.o. and Silekol sp. z o.o.

10. CONTINGENT LIABILITIES

Eastern Europe:

Following a dawn-raid in October 2011, on March 30, 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., Pfeiderer Group S.A. and Pfeiderer 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 Pfeiderer Group S.A. and/or Pfeiderer 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 condensed interim 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 September 30, 2016 no provision has been recognized by the Group in these condensed interim consolidated financial statements.

Western Europe:

An earlier investigation by the German Federal Cartel Office in 2009 concluded in 2011 that Pfeiderer GmbH (then, Pfeiderer AG) and certain competitors had, for a period from at least 2004 through 2007, violated German competition law by coordinating price increases and minimum prices in the German market. As a result, the German Federal Cartel Office in September 2011 fined this group of market participants and certain individuals a total of EUR 42 million on the grounds of violating German and European competition laws by entering into anticompetitive agreements. Pfeiderer GmbH's share of the fine is settled in yearly installments.

Two of the Pfeiderer Group's customers have sued the Pfeiderer Group for damages in connection with these antitrust violations. There are other companies seeking compensation in connection with these antitrust violations. The outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Depending on the outcome of the negotiations and/or the proceedings, the Group could be obligated to make substantial payments.

There is a risk that additional follow-on claims for damages might be raised by third parties, including customers, against the Group in respect thereof. The amount of any such follow-on claims for damages cannot currently be determined with any certainty, but could be substantial. The realization of any of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.

In December 2012, W. Classen GmbH & Co. KG ("Classen"), one of the Pfeiderer Group's current customers, filed an action against the custodian (Sachwalter) of Pfeiderer GmbH (then Pfeiderer AG) seeking the acceptance of its claim to the insolvency schedule (Insolvenztabelle) filed in May 2012. After the lifting of insolvency proceedings, which became legally effective on December 31, 2012, Classen extended its claim to Pfeiderer GmbH. Classen claims damages amounting to EUR 22 million (plus interest) on the same grounds as in the claim against Pfeiderer Baruth GmbH, as described below. Any claim against

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Pfleiderer GmbH would in general be reduced to the applicable insolvency quota (Insolvenzquote) according to the insolvency plan (Insolvenzplan) of Pfeleiderer AG.

In December 2012, Classen also filed an action for damages with the regional court of Düsseldorf (Landgericht Düsseldorf) against Pfeleiderer Baruth GmbH (then: Pfeleiderer Faserplattenwerk Baruth GmbH) amounting to approximately EUR 67 million (plus interest). The plaintiff claims to have suffered damages due to the Chipboard Cartel. Plaintiff has reduced claim from ca. € 67 million to € 55,4 million in its latest statement dated May 11th 2016. The proceeding is still pending and the outcome, i.e. the potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet.

In December 2014 Alno AG ("Alno"), one of the Pfeleiderer Group's customers, has claimed substantial damages from Pfeleiderer GmbH on its own behalf and on behalf of two of its subsidiaries. Alno claims to have suffered damages due to the Chipboard Cartel and has filed actions for damages against Pfeleiderer GmbH and another party in late December 2015 (in total EUR 32.9 million plus interest). The proceeding is still pending and the outcome, i.e. the potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet. Plaintiff has announced another expert opinion to clarify its claim until the end of 2016; it is intended that parties try to negotiate an out-of-court settlement.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfeleiderer Group's customers, filed an action for damages with the regional court of Hanover (Landgericht Hannover) against Glunz AG amounting to approximately EUR 26 million (plus interest). The plaintiff claims to have suffered damages due to the Chipboard Cartel. Following a third party notice (Streitverkündung) by Glunz, Pfeleiderer GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court has passed a judgement on May 31st 2016 according to which the claim are justified on the merits but subject to further discussion regarding quantum. Pfeleiderer GmbH cannot assess the likelihood of success or the potential costs that may arise in connection with this litigation nor the amount of damages that it might be required to pay. Pfeleiderer GmbH's obligation for substantial payments may result from a claim based on joint and several liability (Gesamtschuld), if Glunz or any other third party is obligated to pay compensation to Oeseder.

Hüls group seeks damages for all chipboards supplied Pfeleiderer and other producers from 2002 to 2008. Pfeleiderer has given a waiver of statute of limitations until 31 December 2016. A preliminary assessment of Hüls' expert opinion provided by Pfeleiderer's expert says that Hüls' expert disregards the capacity utilization (omitted variable bias) and aggregates all products and suppliers. Parties are trying to negotiate a settlement until the end of 2016. The outcome, i.e. the potential costs that may arise in connection with this claim or the amount of damages that might be required to be paid, cannot be assessed yet.

The Western European segment is subject to certain tax risks. In light of the change in shareholders in 2012, there are certain risks with regard to the amount of tax loss utilized by the Group. Due to the acquisition of all shares in Pfeleiderer GmbH (formerly Pfeleiderer AG) by Atlantik S.A. in November 2012, tax losses generated by the German subsidiaries in 2012 may not be utilized in full. The extent to which this also applies to an entity with joint tax-filing status has yet to be fully determined. It cannot be ruled out that the fiscal authorities will reject the position taken by Pfeleiderer Holzwerkstoffe GmbH, which could in turn lead to an assessment requiring payments of tax arrears. As a result of the change in shareholders of Pfeleiderer GmbH that occurred as of January 19, 2016, it is possible that the tax losses for the financial year 2016 may also not be recovered. It cannot be ruled out that the fiscal authorities will reject the position taken by Pfeleiderer GmbH, which could in turn lead to an assessment requiring payment of tax arrears. In addition, there was a change in shareholders at the level of the shareholder of Pfeleiderer GmbH in December 2015, which may lead to uncertainty with regard to the possibility of tax loss utilization for the 2015 financial year.

In 2014 Pfeleiderer GmbH (and its subsidiaries) recognized valuation allowances on receivables to the so-called "Non Core"- companies of the former Pfeleiderer Group on account of interest receivable and foreign currency gains on these receivables and treated these valuation allowances as tax-deductible. It cannot be ruled out that the fiscal authorities will reject the position taken by Pfeleiderer GmbH, which could cause additional tax payments.

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11. MANAGEMENT BOARD'S COMMENTS ON THE POSSIBILITY OF REALIZATION OF PREVIOUSLY PUBLISHED FINANCIAL RESULTS

The Pfeiderer Grajewo Group did not publish any forecasts for the 2016 financial year. Due to the current market situation, the Group suspended to publish its financial forecast for 2016 until the situation on the furniture market in Poland and Eastern Europe in general will be stabilised.

12. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

No events of special significance occurred following the close of the first three quarters of 2016 that – if they had occurred prior to the close of the end of the reporting period – would have called for a different presentation of the Company's net assets, financial position and results of operations.

Management Board of Pfeiderer Group S.A.

Michael Wolff

President of the Management Board, Chief Executive Officer

Richard Mayer

Member of the Management Board, Chief Financial Officer

Wojciech Gątkiewicz

Member of the Management Board, Chief Sales Officer

Rafał Karcz

Member of the Management Board, Chief Administration Officer

Dirk Hadrow

Member of the Management Board, Chief Operations Officer

Wrocław, November 7, 2016

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

**THE PFLEIDERER GROUP S.A. GROUP
(PREVIOUSLY PFLEIDERER GRAJEWO GROUP)
UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2016**

PFLEIDERER GROUP S.A. GROUP
**Unaudited condensed consolidated interim financial statements for the three and
nine month periods ended September 30, 2016**

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

PFLEIDERER GROUP S.A. GROUP
**Unaudited condensed consolidated interim financial statements for the three and
nine month periods ended September 30, 2016**

(all amounts in EUR thousand unless otherwise stated)

Unaudited interim condensed consolidated statement of financial position

ASSETS

'000 EUR	Note	Sep. 30, 2016	Dec. 31, 2015
Property, plant and equipment	7.	533,963	163,895
Intangible assets	2.	92,359	958
Goodwill	2.	64,551	25,303
Other long-term investments		534	30
Investment property		894	906
Deferred tax assets		5,289	4,773
Advances paid for property, plant and equipment and intangible assets		10,531	7,083
Government grants receivables		19,580	21,165
Non-current assets		727,701	224,113
Inventories		95,856	36,656
Trade receivables and other	9.	57,384	113,148
Income tax receivable		2,074	101
Government grant receivables		1,848	1,147
Cash and cash equivalents		77,073	20,731
Fair value of hedging instruments		284	640
Other short term financial assets		721	768
Current assets		235,240	173,191
Total assets		962,941	397,304

LIABILITIES AND EQUITY

'000 EUR		Sep. 30, 2016	Dec. 31, 2015
Share capital	10.	6,692	5,573
Share premium	10.	146,374	68,250
Reserves	10.	76,675	164,331
Retained earnings	10.	41,523	41,153
Total equity attributable to owners of the Company		271,264	279,307
Total equity		271,264	279,307
Loans and borrowings	11.	330,555	9,604
Provisions for employee benefits		62,119	2,268
Provisions		1,853	201
Deferred tax liabilities		57,487	3,751
Fair value of hedging instruments		56	107
Deferred income from government grants		25,142	26,554
Other non-current liabilities		1,397	0
Non-current liabilities		478,609	42,485
Loans and borrowings	11.	4,547	5,092
Income tax payable		11,448	853
Trade payables and other	12.	169,566	62,511
Employee related payables		26,097	5,627
Deferred income from government grants		1,410	1,429
Current liabilities		213,068	75,512
Total liabilities		691,677	117,997
Total equity and liabilities		962,941	397,304

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

PFLEIDERER GROUP S.A. GROUP
**Unaudited condensed consolidated interim financial statements for the three and
nine month periods ended September 30, 2016**

(all amounts in EUR thousand unless otherwise stated)

Unaudited interim condensed consolidated statements of profit and loss and other comprehensive income

'000 EUR	Note	Jan. 1 -	Jan. 1 -	Jul. 1 -	Jul. 1 -
		Sep. 30, 2016	Sep. 30, 2015	Sep. 30, 2016	Sep. 30, 2015
Revenue		695,804	279,294	237,343	89,365
Cost of sales		-533,990	-224,695	-178,023	-71,761
Profit on sales		161,814	54,599	59,320	17,604
Other income		6,055	4,959	1,366	1,594
Distribution expenses		-81,638	-19,853	-28,400	-6,469
General and administrative expenses		-37,735	-11,379	-12,931	-4,129
Other expenses		-25,235	-2,248	-12,220	-1,224
Result from operating activities		23,261	26,078	7,135	7,376
Financial income	6.	2,581	486	822	23
Financial expenses	6.	-21,598	-1,831	-8,109	-424
Exchange differences	6.	5,468	0	4,889	0
Net financial result		-13,549	-1,345	-2,398	-401
Profit before tax		9,712	24,733	4,737	6,975
Income tax expense	8.	6,834	-4,899	4,699	-1,613
Net profit for the period		16,546	19,834	9,436	5,362

Other comprehensive income

Actuarial gains and losses net of related tax		-5,687	0	-1,268	0
Exchange differences		-8,651	2,186	0	0
Items that will not be reclassified subsequently to profit or loss		-14,338	2,186	-1,268	0
Cash flow hedge on acquisition of the subsidiary reclassified to goodwill		917	0	0	0
Translation difference on foreign operations		0	107	0	0
Cash flow hedge - effective portion of changes in fair value net to related tax		-426	1,637	656	-184
Cash flow hedge - reclassified to profit or loss net of related tax		174	-1,289	463	-260
Items that are or may be reclassified subsequently to profit or loss		665	455	1,119	-444
Other comprehensive income		-13,673	2,641	-149	-444
Total comprehensive income for the period		2,873	22,475	9,287	4,918

Profit for the period attributable to:

Shareholders of the Company		16,546	19,834	9,436	5,362
Profit for the period		16,546	19,834	9,436	5,362

Total comprehensive income attributable to:

Shareholders of the Company		2,873	22,475	9,287	4,918
Total comprehensive income for the period		2,873	22,475	9,287	4,918

Number of shares at the end of the reporting period		64,701,007	49,624,000	64,701,007	49,624,000
Average number of shares during the reporting period		63,655,521	49,624,000	64,701,007	49,624,000
Basic and diluted earnings per share		0.26	0.40	0.15	0.11

Weighted-average number of ordinary shares (basic and diluted)	days	Jan. 1 -	Jan. 1 -	Jul. 1 -	Jul. 1 -
		Sep. 30, 2016	Sep. 30, 2015	Sep. 30, 2016	Sep. 30, 2015
31.12.2015		49,624,000	49,624,000	64,701,007	49,624,000
19.01.2016 (Capital increase)	19	15,077,007	0	0	0
30.09.2016	255	64,701,007	49,624,000	64,701,007	49,624,000
Average number of shares	274	63,655,521	49,624,000	64,701,007	49,624,000

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

PFLEIDERER GROUP S.A. GROUP

Unaudited condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2016

(all amounts in EUR thousand unless otherwise stated)

Unaudited interim condensed consolidated statement of changes in equity

For the nine month period ended September 30, 2016:

'000 EUR	Share capital	Share premium	Un-registered issuance of shares	Reserve for own shares	Statutory reserve funds	Revaluation reserve	Exchange rate differences	Actuarial gains and losses	Cash flow hedges	Retained earnings	Total
As at Jan. 1, 2016	5,573	68,250	75,574	32,734	58,074	145	-1,814	0	-382	41,153	279,307
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	0	0	16,546	16,546
Other comprehensive income	0	0	0	0	0	33	-8,684	-5,687	665	0	-13,673
Total comprehensive income for the period	0	0	0	0	0	33	-8,684	-5,687	665	16,546	2,873
Transactions with owners recognised in equity											
Transfer of part of 2015 net profit to statutory reserve funds	0	0	0	0	993	0	0	0	0	-993	0
Share issue	1,119	78,124	-75,574	0	0	0	0	0	0	0	3,669
Divident payment	0	0	0	0	0	0	0	0	0	-14,585	-14,585
Total transactions with owners recognised in equity	1,119	78,124	-75,574	0	993	0	0	0	0	-15,578	-10,916
Others	0	0	0	0	0	0	0	0	0	0	0
As at Sep. 30, 2016	6,692	146,374	0	32,734	59,067	178	-10,498	-5,687	283	42,121	271,264

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

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(all amounts in EUR thousand unless otherwise stated)

For the nine month period ended September 30, 2015:

'000 EUR	Share capital	Share premium	Statutory reserve funds	Revaluation reserve	Exchange differences on translating foreign operations	Exchange rate differences	Actuarial gains and losses	Cash flow hedges	Retained earnings	Total
As at Jan. 1, 2015	5,573	68,250	76,341	145	-107	-1,841	0	285	28,811	177,457
Comprehensive income for the period										
Net profit	0	0	0	0	0	0	0	0	19,834	19,834
Other comprehensive income	0	0	0	0	107	2,186	0	348	0	2,641
Total comprehensive income for the period	0	0	0	0	107	2,186	0	348	19,834	22,475
Transactions with owners recognised in equity										
Capital increase	0	0	0	0	0	0	0	0	0	0
Transfer of part of 2014 net profit to statutory reserve fund	0	0	14,476	0	0	0	0	0	-14,476	0
Transfer to reserve for own shares	0	0	0	0	0	0	0	0	0	0
Translating of foreign currency operations into EUR	0	0	0	0	0	0	0	0	0	0
Transactions with owners recognised in equity	0	0	14,476	0	0	0	0	0	-14,476	0
As at Sep. 30, 2015	5,573	68,250	90,817	145	0	345	0	633	34,169	199,932

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

PFLEIDERER GROUP S.A. GROUP
Unaudited condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2016

(all amounts in EUR thousand unless otherwise stated)

Unaudited interim condensed consolidated statement of cash flows

'000 EUR	Jan. 1 - Sep. 30, 2016	Jan. 1 - Sep. 30, 2015
Net profit for the reporting period	16,546	19,834
Depreciation and amortisation	52,896	11,409
Foreign exchange gains	-5,468	-1,369
Interest for the period	19,017	1,466
Profit on investing activities	0	-44
Income tax disclosed in profit or loss of the period	-6,834	4,899
Amortisation of government grants	-1,679	-811
Result on forward contracts	-1,555	1,334
Increase in exchange differences on translating foreign operations	-446	110
Net result from discontinued operations	0	0
Other adjustments	0	141
Changes in		
trade and other receivables	-8,407	-16,334
inventories	627	2,300
trade and other payables	13,970	6,913
employee benefit obligations	-1,712	-191
provisions	7,599	5
Cash generated from operating activities	84,554	29,662
Interest received	0	29
Income tax (paid)/received	-5,282	-3,020
Net cash provided by operating activities	79,272	26,671
Disposal of property, plant and equipment	135	64
Income from disposal of discontinued operations	0	3,527
Interest received	71	83
Repayment/(granting) loan to other entities	0	481
Acquisition of intangible assets and property, plant and equipment	-31,793	-17,665
Acquisition of subsidiary, net of cash acquired	-9,692	0
Net cash used in investing activities	-41,279	-13,510
Repayment of borrowings and other debt instruments	-21,446	-9,694
Increase of borrowings and other debt instruments	0	0
Share issue	80,864	0
Dividend payments	-14,585	0
Acquisition of non-controlling interests	0	0
Prepaid costs related to the planned capital increase	0	-1,139
Interest paid	-26,587	-1,666
Other financing activities	103	22
Net cash used in financing activities	18,349	-12,477
Total cash flows	56,342	684
Increase in cash	56,342	684
Cash at beginning of the period	20,731	4,332
Cash at the end of the period	77,073	5,016

The cash flow from share issue resulted from the issuance of 15,077,007 new shares. The cash flow from acquisition of subsidiary resulted mainly from the cash-payment to the seller of Pfeleiderer GmbH and its subsidiaries (EUR 119,353 thousand) after deducting the cash and cash equivalents held by the acquiree (EUR 109,661 thousand). The cash flow from repayment of borrowings reflects the extinguishment of financial debts in the course of the refinancing on January 19, 2016 (please refer to note 11).

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

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1. GENERAL INFORMATION

Pfleiderer Group S.A. (the "Company"; the "Parent") is a company domiciled in Poland, which shares are publicly traded. The Company until September 30, 2016, acted under a business name Pfleiderer Grajewo S.A.

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 Strzegomska 42AB Street, Wrocław, Poland. Until September 30, 2016, the Company's registered office was at 1 Wiórowa Street, Grajewo.

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

These interim condensed consolidated financial statements of the Pfleiderer Group comprise the interim condensed financial information of the Company and its subsidiaries (collectively the "Group"). They were authorized for issue by the Company's Management Board on November 7, 2016.

The Pfleiderer Group S.A. Group (the "Group" or "Pfleiderer Group") is primarily involved in manufacturing and veneering of wood and wood-based products and paper finishing, as well as domestic and foreign trade.

2. STRUCTURE OF THE GROUP

Pfleiderer Group S.A. is the Parent Company with respect to the following subsidiaries:

		Sep. 30, 2016	Dec. 31, 2015
Eastern Europe			
Jura Polska Sp. z o.o.	Grajewo	100.00%	100.00%
Pfleiderer Grajewo Sp. z o.o.	Grajewo	100.00%	0.00%
Pfleiderer MDF Sp. z o.o.	Grajewo	100.00%	100.00%
Pfleiderer Prospan S.A.	Wieruszów	100.00%	100.00%
Pfleiderer Polska Sp. z o.o. (prev. Pfleiderer Services Sp. z o.o.)	Grajewo	100.00%	100.00%
Silekol Sp. z o.o.	Kędzierzyn-Koźle	100.00%	100.00%
Unifloor Sp. z o.o. w likwidacji	Wieruszów	100.00%	100.00%
Western Europe			
Pfleiderer GmbH, Neumarkt	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Holzwerkstoffe GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Neumarkt GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Gütersloh GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Leutkirch GmbH	Leutkirch, Germany	100.00%	0.00%
Pfleiderer Erwerbengesellschaft mbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Arnsberg GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Baruth GmbH	Baruth, Germany	100.00%	0.00%
Heller Holz GmbH	Neumarkt, Germany	100.00%	0.00%
JURA-Spedition GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer France S.A.S.	Reims, France	100.00%	0.00%
Pfleiderer Benelux B.V.	Deventer, Netherlands	100.00%	0.00%
Pfleiderer Suisse AG	Rapperswil, Switzerland	100.00%	0.00%
Pfleiderer UK Ltd.	Macclesfield, United Kingdom	100.00%	0.00%
Pfleiderer Vermögensverwaltung GmbH & Co. KG	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Infrastrukturtechnik GmbH & Co. KG (in Insolvenz)	Düsseldorf, Germany	100.00%	0.00%
Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH (in Insolvenz)	Düsseldorf, Germany	100.00%	0.00%
Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH (i.L.)	Aulendorf, Germany	100.00%	0.00%
Blitz 11-446 GmbH	Neumarkt, Germany	100.00%	50.00%

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Changes in the Group's structure in the reporting period

Acquisition of subsidiary

On January 19, 2016, Pfleiderer Group S.A. acquired from Atlantik S.A. the only share in Pfleiderer GmbH and its subsidiaries, representing 100% of the share capital and authorizing the exercise of 100% of the voting rights at the general meeting of shareholders. The purchase price amounted to EUR 261,707 thousand. The acquisition was an integral part of the "ONE Pfleiderer" project aimed at the creation a fully integrated Group. The new group structure is presented above.

Consideration transferred

The acquisition-date-fair value of the total consideration was EUR 261,707 thousand (PLN 1,164,215 thousand). The consideration was comprised as follows:

- EUR 119,353 thousand – cash payments.
- EUR 7,375 thousand – non-cash settlement, the amount which was settled through reduction of the purchase price and representing a surplus of transaction costs in excess of the limit in the amount of EUR 11.0 million agreed with Atlantik S.A.
- EUR 134,979 thousand - non-cash settlement, assumption of obligation of Atlantik S.A. due to Pfleiderer Service GmbH representing proceeds from the sale of Pfleiderer Grajewo S.A shares held by Pfleiderer Service GmbH after the settlement of the Secondary Offering to Atlantik S.A.

The consideration was reduced by the amount of the effective portion of the cash flow hedge of EUR 4,304 thousand.

'000 EUR	
Cash consideration	261,707
Effective portion of cash flow hedge - gains	-4,304
Consideration	257,403

Acquisition-related costs

The Group incurred acquisition related costs of EUR 3,274 thousand (PLN 14,469 thousand) on legal fees and advisory costs of which EUR 865 thousand (PLN 3,643 thousand) was incurred in the previous year (2015) and the remaining costs of EUR 2,409 thousand (PLN 10,826 thousand) have been incurred in the current reporting period. The costs were recognized as general and administrative expenses in profit or loss for the periods in which these expenses were incurred.

Identifiable assets and liabilities assumed

Since the acquisition only occurred in January 2016 the determination of fair values of acquired assets and liabilities has not been finalized yet and thus has been recognized on a provisional basis. The fair value of the acquired assets and liabilities on a provisional basis are as follows:

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'000 EUR	Fair value
Intangible assets	96,116
Property, plant and equipment	396,012
Inventories	59,858
Receivables (incl. "PSG-claim" of EUR 134,979k)	145,195
Cash and cash equivalents	109,661
Other assets (incl. tax receivables)	15,341
Deferred tax assets	47
Total assets	822,230
Pension provisions	-49,911
Other provisions	-5,532
Financial liabilities	-343,662
Trade payables	-65,152
Other liabilities (incl. intercompany)	-59,219
Tax liabilities	-9,866
Deferred tax liabilities	4,547
Total liabilities	-528,795
Deferred tax assets	8,075
Deferred tax liabilities	-83,248
Deferred taxes on fair value adjustments	-75,173
Total identifiable net assets acquired	218,262

The Company acquired trade receivables with a gross nominal amount of EUR 5,794 thousand, with a fair value of EUR 5,268 thousand and thus contractual cash flows not expected to be collected amounting to EUR 526 thousand.

Goodwill

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

Goodwill in the amount of EUR 39,141 thousand arising from acquisition has been determined as follows (on a provisional basis):

'000 EUR	Acquired net assts (fair value)	Consideration transferred	Residual goodwill
Determination of goodwill	218,262	257,403	39,141

None of the goodwill recognized is expected to be deductible for tax purposes.

The amounts of revenue and profit of the former Pfeleiderer GmbH Group since the acquisition date included in the consolidated statement of profit and loss and other comprehensive income for the nine month period ended September 30, 2016, is as follows:

- Revenue: : EUR 466,229 thousand
- Profit: EUR 1,184 thousand

The revenue and profit of the combined entity for the current reporting period as though the acquisition date for the business combination had occurred as of January 1, 2016, is as follows:

- Revenue: EUR 726,618 thousand
- Profit: EUR 13,534 thousand

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

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3. BASIS OF PREPARATION

a) Statement of compliance

These interim condensed consolidated financial statements were prepared in accordance with the requirements of IAS 34 "Interim financial reporting" as adopted for use by the European Union and in the scope required under the Minister of Finance Regulation of February 19, 2009, on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-member state (consolidated text: Official Journal 2014, item 133) (the "Regulation").

b) Changes in accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies described in the audited consolidated financial statements of the Pfleiderer Grajewo S.A. Group for the financial year ended December 31, 2015. These interim condensed consolidated financial statements do not contain all information required in annual financial statements; therefore, they should be read in conjunction with the Group's audited annual consolidated financial statements for the year ended December 31, 2015.

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning on or after January 1, 2016 and have not been applied in these interim condensed consolidated financial statements. The Group intends to apply them for the periods for which they are effective for the first time.

The following amendments to the existing standards, endorsed by the European Union, are applicable to the Group's financial statements for the financial year beginning January 1, 2016:

Amendments to IFRS 11 – Joint arrangements

These amendments contain rules on the recognition and profit and loss treatment of joint ventures and joint operations. These changes did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 1 – Presentation of Financial Statements

These amendments relate to a variety of reporting issues. They clarify that disclosures in the notes are necessary only if their content is not insignificant. This is also explicitly the case if an IFRS stipulates a list of minimum disclosures. The amendments also provide explanatory notes on the aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income. These changes did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 – Property, Plant and Equipment and Intangible Assets

With these amendments, the IASB provides further guidance for determining an acceptable method of depreciation and amortization. These changes did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 41 – Property, Plant and Equipment and Agriculture

To date, under IAS 41, all biological assets have been measured at fair value less estimated selling costs. Under the new requirements, bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their use is similar to that of manufacturing. These changes did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 19 – Employee Benefits

These amendments clarify the rules dealing with allocation of employee or third-party contributions to periods of service in circumstances in which the contributions are linked to the term of service. They also allow simplifications for cases in which contributions are independent of the years of service. These changes did not have a material impact on the Group's consolidated financial statements.

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

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Improvements to IFRS 2010 - 2012

Changes were made to seven standards as part of the annual improvement project. Revisions in the wording of individual IFRSs are intended to clarify existing provisions. There are also changes with an effect on disclosures in the notes. The standards affected are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. These changes did not have a material impact on the Group's consolidated financial statements.

Improvements to IFRS 2012 - 2014

Changes were made to four standards as part of the annual improvement project. Revisions in the wording of individual IFRSs/IASs are intended to clarify existing provisions. The standards affected are IFRS 5, IFRS 7, IAS 19 and IAS 34. These changes did not have a material impact on the Group's consolidated financial statements.

c) Basis of Accounting

These interim condensed consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and investment properties, which are measured at fair value.

These interim condensed consolidated financial statements were prepared under the assumption that the Pfeleiderer Group S.A. Group will continue to operate as a going concern for the foreseeable future.

d) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Euro (EUR) and all amounts have been rounded to the nearest thousand (EUR'000) unless stated otherwise.

The functional currency of the parent Company, Pfeleiderer Group S.A. is the Polish Zloty. Nevertheless approximately two-third of the Group's revenues are generated by the West European segment in Euro and additionally a more than insignificant share of the Polish sales and sourcing is conducted in Euro as well. The Western European segment accounts for more than two-thirds of the Group's assets (such as tangible and intangible assets and inventories) and most of the group's liabilities. In view of the share of the Euro-denominated business and assets as well as liabilities, with effect from January 1, 2016 Pfeleiderer Group selected the EUR as the presentation currency for its consolidated financial statements.

e) Estimates and judgements

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Any change in accounting estimates is recognised in the period in which such change occurred or in the current and future periods if the estimate change relates to both the current and future periods.

The Group reviews its assets on an ongoing basis and, if necessary, recognises impairment losses in profit or loss. Allowances are primarily recognised on trade receivables and inventories i.e. materials and finished goods. In addition, the Group reviews the useful life of fixed assets and factors influencing the recoverable amount of non-current assets. The retirement provision is calculated based on assumptions using an actuarial method.

Significant judgements and estimates applied in these interim financial statements are substantially unchanged to those applied in the Group's consolidated financial statements as at and for the year ended December 31, 2015 except for the judgements and estimates related to the acquired business as described in note 14.2 Contingent liabilities.

Contingent liabilities in relation to the described risks (note 14.2 Contingent liabilities) relating to prior antitrust violations could not be measured reliable. The contingent liabilities include potential damages and payments for out-of-court settlements. As the potential damage caused by the alleged or actual viola-

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tion of the competition law is uncertain (on the merits and to the extent) the damage cannot be measured reliably by the Group. At this stage, given the nature of the issues involved and the inherent uncertainty of such issues, it is not possible to evaluate the outcome and the financial consequences of the corresponding law suits and the out-of-court negotiations. Management has determined that not all of the conditions have been met to require a provision for these matters. Therefore and as at September 30, 2016 no provision has been recognised by the Group in the condensed consolidated interim financial statements.

4. OPERATING SEGMENTS

The extended Grajewo Group presently consists of two former largely independent business segments which are currently subject to an overall integration project. The project is still ongoing and is planned to result in a fully integrated European company. The Group is taking steps towards creating a fully integrated company and is still regionally and legally broadly separated into business segments which however will coalesce more and more into one integrated company in the future.

The Group has determined two operating segments – Western Europe and Eastern Europe. Both are components of the Company that engage in business activities from which they earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker and for which discrete financial information is available.

Segment reporting is as follows:

Jan. 1 - Sep. 30, 2016 '000 EUR	Western Europe	Eastern Europe	Others / Consolidation	Group
External revenues	466,229	229,575	0	695,804
Intersegment revenues	4,186	22,059	-26,245	0
Profit/loss before income taxes	-8,759	18,620	-149	9,712
Financial result	13,965	-416	0	13,549
Result from operating activities (EBIT)	5,206	18,204	-149	23,261
Depreciation and amortisation	40,543	12,353	0	52,896
Impairment	0	0	0	0
Segment earnings EBITDA	45,749	30,557	-149	76,157
Cash and cash equivalents	-64,965	-11,743	-365	-77,073
Current financial liabilities	4,547	0	0	4,547
Non-current financial liabilities	330,555	0	0	330,555
Net debt	270,137	-11,743	-365	258,029
Receivables before factoring	62,376	44,808	0	107,184
Inventories	60,740	35,116	0	95,856
Liabilities	-55,538	-39,177	0	-94,715
Net working capital before factoring	67,578	40,747	0	108,325
Segment capital expenditure	11,318	21,214	0	32,532

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

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Jan. 1 - Sep. 30, 2015 '000 EUR	Western Europe	Eastern Europe	Others / Consolidation	Group
External revenues	0	279,294	0	279,294
Intersegment revenues	0	0	0	0
Profit/loss before income taxes	0	24,733	0	24,733
Financial result	0	1,345	0	1,345
Result from operating activities (EBIT)	0	26,078	0	26,078
Depreciation and amortisation	0	11,409	0	11,409
Impairment	0		0	0
Segment earnings EBITDA	0	37,487	0	37,487
Cash and cash equivalents	0	-5,016	0	-5,016
Current financial liabilities	0	5,122	0	5,122
Non-current financial liabilities	0	10,935	0	10,935
Net debt	0	11,041	0	11,041
Receivables before factoring	0	43,116	0	43,116
Inventories	0	40,451	0	40,451
Liabilities	0	-103,319	0	-103,319
Net working capital before factoring	0	-19,752	0	-19,752
Segment capital expenditure	0	-17,665	0	-17,665

5. SEASONALITY OF OPERATIONS

Chipboard sales are subject to seasonal changes, in particular changes relate to the seasonal nature of the construction cycle. The highest sales can be observed in the second half of the year whereas the lowest sales are normally generated in the second quarter of the calendar year.

6. FINANCE INCOME AND EXPENSES

6.1 Recognized in profit or loss for the period:

'000 EUR	Jan. 1 - Sep. 30, 2016	Jan. 1 - Sep. 30, 2015	Jul. 1 - Sep. 30, 2016	Jul. 1 - Sep. 30, 2015
Interest income	2,581	200	822	24
Net foreign exchange gains (non-operating)	0	31	0	0
Gains on forward contracts	0	95	0	0
Investments revaluation	0	0	0	0
Other finance income	0	160	0	-1
Finance income	2,581	486	822	23
Interest expense	-21,595	-1,601	-8,109	-408
Loss on sale of subsidiary	0	-165	0	1
Other finance costs	-3	-64	0	-16
Finance costs	-21,598	-1,830	-8,109	-423
Exchange differences	5,470	0	5,472	0
Losses on translation of foreign currency financial position	-2	0	-583	0
Other financial result	5,468	0	4,889	0
Net finance costs	-13,549	-1,344	-2,398	-400

The increase of the interest expenses derives from the interest on the 7.875% Senior Secured Notes issued by Pfeleiderer GmbH in 2014. The gains on translation of foreign currency financial positions resulted from the translation of intercompany loans denominated in EUR granted by Pfeleiderer Services GmbH to Pfeleiderer Grajewo S.A. within project Pinehurst.

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6.2 Recognized in other comprehensive income:

'000 EUR	Jan. 1 - Sep. 30, 2016	Jan. 1 - Sep. 30, 2015	Jul. 1 - Sep. 30, 2016	Jul. 1 - Sep. 30, 2015
Cash flow hedge - effective portion of changes in fair value net				
of related tax	-426	1,637	656	-184
Cash flow hedge - reclassified to profit or loss net				
of related tax	174	-1,289	463	-260
Cash flow hedge on aquisition of subsidiary reclassified to goodwill				
net of related tax	917	0	0	0
	665	348	1,119	-444

7. PROPERTY, PLANT AND EQUIPMENT

In 2016 the Group continues a long-term investment program designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity. The capital expenditures for the nine month period ended September 30, 2016 were EUR 31,802 thousand (including advance payments), while the capital expenditures including advance payments for the nine month period ended September 30, 2015, were EUR 14,745 thousand and EUR 27,290 thousand for the entire financial year 2015.

As at September 30, 2016, the Group has purchase commitments for the property, plant and equipment and intangible assets. These commitments relate to the signed agreements by the members of the Group with respect to future investments plans.

'000 EUR	Sep. 30, 2016	Dec. 31, 2015
Property, plant and equipment	11,742	8,472
Intangible assets	108	2
Commitment to purchase	11,850	8,474

8. INCOME TAX EXPENSE

Income tax expense comprises both current income tax and deferred taxes. Income tax expense is recognized as the best estimate of the weighted-average annual income tax rate expected for the whole year multiplied by the pre-tax income for the interim reporting period.

The Polish Group companies are taxed at a corporate tax rate of 19% (previous year: 19%). The German Group companies are taxed at a corporate tax rate of 15%, plus solidarity surcharge of 5.5% on the corporate tax rate (+0.83%-points) plus an average trade tax rate of 13.02%, thus 28.85% all-in-all. The respective local tax rates apply for other foreign companies.

Current and deferred taxes are recognized on the basis of an overall tax rate of 19% (previous year: 19%) for Polish companies and of an overall tax rate of 28.85% (in previous year 28.85%) for German companies.

The fluctuation of the tax rate compared to prior year's tax rate is caused mainly by local differences in tax rate, in particular in Germany with an average tax rate of 28.85%, and numerous permanent differences in the German tax group.

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9. TRADE RECEIVABLES AND OTHER

'000 EUR	Sep. 30, 2016	Dec. 31, 2015
Trade receivables	43,779	9,703
Current prepayments and accrued income	4,820	3,616
Current VAT receivables	3,476	4,555
Trade receivables from related parties	2	9,801
Receivables related to capital increase	0	84,911
Other receivables	5,307	562
Total	57,384	113,148

10. EQUITY

The par value of the share is denominated in PLN and thus is disclosed in its local currency (last line of the following table) and is translated into EUR at its historical exchanges rates:

	Sep. 30, 2016	Dec. 31, 2015
Par value of share capital (PLN)	21,351,332	16,375,920
Number of shares at beginning of period (fully paid up)	49,624,000	49,624,000
Number of shares at end of period (fully paid up)	64,701,007	49,624,000
Par value per share (PLN)	0.33	0.33

The par value of the share capital translated into Euro at its historical exchange rates was as follows:

	Sep. 30, 2016	Dec. 31, 2015
Par value of share capital ('000 EUR)	6,692	5,573
Number of shares at beginning of period (fully paid up)	49,624,000	49,624,000
Number of shares at end of period (fully paid up)	64,701,007	49,624,000

All shares issued by the Group 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 are entitled to the same rights to share in the distribution, if any, of the Company's assets.

Pfleiderer Group S.A. (the Parent) issued 15,077,007 new ordinary shares on January 19, 2016. The shareholder structure after issuing the new shares and as of the reporting date is as follows:

Shareholding structure as at June 29, 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%
Atlantik S.A.	16,374,497	25.31%	16,374,497	25.31%
Nationale-Nederlanden OFE	6,400,000	9.89%	6,400,000	9.89%
Aviva OFE Aviva BZ WBK	6,000,000	9.27%	6,000,000	9.27%
Other shareholders	19,153,614	29.60%	19,153,614	29.60%
Total	64,701,007	100.00%	64,701,007	100.00%

* according to the latest available information

Dividends

The Ordinary General Meeting of the Company adopted a resolution concerning distribution of net profit for the period of January 1, 2015 to December 31, 2015, providing for a dividend payment for the Company's shareholders in the amount of EUR 14,585 thousand (PLN 64,701 thousand) representing PLN 1.00 per share. Additionally, the Ordinary General Shareholder Meeting set the following dates:

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- dividend date – the date used to prepare the list of shareholders eligible to receive the dividend – was set for July 15, 2016 and
- dividend payment date was set for July 29, 2016.

The remaining part of the profit for 2015 in the amount of EUR 993 thousand (PLN 4,405 thousand) was allocated to the Company's reserves.

11. BORROWINGS AND OTHER DEBT INSTRUMENTS

Non-current borrowings and other debt instruments:

'000 EUR	Sep. 30, 2016	Dec. 31, 2015
Non-current portion of interest-bearing bonds	330,555	0
Bank borrowings	0	9,604
Total	330,555	9,604

Current borrowings and other debt instruments:

'000 EUR	Sep. 30, 2016	Dec. 31, 2015
Current portion of interests-bearing bonds	4,222	0
Bank liabilities due within one year	148	5,092
Other interest bearing liabilities	177	0
Total	4,547	5,092

Bank loans and corporate bonds

On June 27, 2014, Pfeleiderer GmbH issued 7.875% Senior Secured Notes due 2019 with a face value of EUR 321,684 thousand.

On June 26, 2013, the Parent Company and the subsidiaries: Pfeleiderer Prospan S.A. and Silekol Sp. z o.o. concluded credit facility agreements with the following banks: Bank Millennium S.A., Alior Bank S.A. and Bank Zachodni WBK S.A. The total credit limit available under the facilities provided by those banks amounted to PLN 260 million and secured the financial liquidity of the Parent Company and its subsidiaries. All these bank credit lines were repaid fully on February 11, 2016, from own cash reserves and were replaced by new Revolving Credit Facilities ("RCF") Agreement with a consortium of four German and four Polish banks with a sublimit for Pfeleiderer Group S.A. and significant Polish subsidiaries amounting to PLN 200 million and for Pfeleiderer GmbH and Pfeleiderer Holzwerkstoffe GmbH amounting to EUR 60 million.

On January 19, 2016, an amendment to the RCF Agreement came into force which provided Pfeleiderer Group S.A. and Polish subsidiaries a limit of PLN 200 million (Tranche B) for financing of working capital and other corporate needs. Moreover on July 8, 2016 two more Polish subsidiaries - Pfeleiderer Grajewo Sp. z o.o. and Pfeleiderer Polska Sp. z o.o. (previously Pfeleiderer Services Sp. z o.o.) - acceded RCF Agreement. At the reporting date this financing was not drawn in cash whilst bank guarantees and letters of credits were issued within this credit line for the total amount of EUR 143 thousand and PLN 6,559 thousand respectively. The RCF Agreement provides Pfeleiderer Holzwerkstoffe GmbH and Pfeleiderer GmbH with up to EUR 60.0 million (Tranche A). This Tranche A is partially drawn for bank guarantees of EUR 2,097 thousand and PLN 1,040 thousand (EUR 241 thousand). This RCF expires on April 30, 2019. Interest on cash drawings is accrued at EURIBOR (for EUR-drawings) plus margin, WIBOR (for PLN-drawings) plus margin, LIBOR (for drawings in other currencies) plus margin.

The terms and repayments schedule of the bank borrowings, beside the aforementioned RCF, as at September 30, 2016 and December 31, 2015, was as follows:

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'000 PLN						Sept. 30, 2016		Dec. 31, 2015	
Lender	Currency	Interest rate	Maturity date***	Security	Credit limit	Current portion	Non-current portion	Current portion	Non-current portion
Millenium S.A.	PLN	1M WIBOR + margin	June 2, 2018	mortgage	75,000	---	---	0	0
Millenium S.A.	PLN	1M WIBOR + margin	June 25, 2016	mortgage	25,000	---	---	0	0
Alior Bank S.A.	PLN	1M WIBOR + margin	June 2, 2018	mortgage	75,000	---	---	0	0
Alior Bank S.A.	PLN	1M WIBOR + margin	June 25, 2016	mortgage	25,000	---	---	0	0
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	June 2, 2018	mortgage	45,000	---	---	0	0
Bank Zachodni WBK S.A.	PLN	1M WIBOR + margin	June 25, 2016	mortgage	15,000	---	---	0	0
PKO Bank Polski S.A.	PLN	1M WIBOR + margin	May 31, 2018	mortgage, registered pledge, assignments	54,000	---	---	0	0
PKO Bank Polski S.A.	PLN	3M WIBOR + margin	Oct. 15, 2018	mortgage, registered pledge, assignments	n/a	---	---	21,700	40,926
Total					314,000	---	---	21,700	40,926

***all above bank loans fully repaid in February 2016

The credit facility with Bank Ochrony Środowiska SA was fully repaid on October 14, 2015. All the other bank loans and credit loans were repaid in full on February 11, 2016.

Credit agreements for special purposes:

Investment facility agreement with PKO BP S.A.

On January 15, 2007, Pfleiderer MDF Sp. z o.o., a subsidiary, entered into a PLN 235,022 thousand investment facility agreement with PKO BP S.A. This is a special-purpose facility obtained to finance the construction of the MDF board production plant in Grajewo. This bank loan was fully repaid on February 11, 2016.

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

On August 29, 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 original value of the loan amounted to PLN 65,000 thousand and included an overdraft of PLN 30,000 thousand, a working overdraft facility of PLN 30,000 thousand as well as a facility for guarantees and letters of credit with a limit of PLN 5,000 thousand.

On June 10, 2015, Pfleiderer MDF Sp. z o.o., a subsidiary, signed an amendment to the multi-purpose facility agreement with PKO BP S.A. According to the amendment, the terms of the multi-purposes facility agreement was extended until May 31, 2018. Under the amendment, the amount of the multi-purpose facility loan was reduced to PLN 54,000 thousand. This bank loan was repaid fully on February 11, 2016.

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12. TRADE PAYABLES AND OTHER

'000 EUR	Sep. 30, 2016	Dec. 31, 2015
Trade payables	94,689	34,285
Trade payables to related parties	0	1,828
Liabilities under factoring agreements	27,352	14,130
Insolvency-related liabilities of Pfeiderer GmbH	10,328	0
VAT liabilities	2,677	0
Penalty for past antitrust violations Pfeiderer GmbH	2,189	0
Liabilities for capital expenditures	1,510	3,508
Liabilities for capital expenditures to related parties	0	478
Prepaid deliveries	200	412
Other liabilities	30,621	7,870
Total	169,566	62,511

13. FINANCIAL INSTRUMENTS

13.1. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximate their carrying amounts as at September 30, 2016 and December 31, 2015 with the exception of the High Yield Bond, listed at the Irish Stock Exchange, quoted at 103.6% (level 1) on September 30, 2016, equal to EUR 333,233 thousand (carrying amount of EUR 330,555 thousand, plus accrued interest of EUR 4,222 thousand).

13.2. Valuation of financial assets and liabilities at fair value

As at September 30, 2016, the Group held 35 open forward contracts with a nominal exposure amounting to EUR 40,250 thousand. The fair value of the open contracts amounted to EUR 1,225 thousand (asset), based on level 2 input factors.

As at December 31, 2015, the Group held 37 open forward contracts for sales of EUR for PLN with nominal exposure amounting to EUR 67,800 thousand and for the purchase of EUR for PLN in the nominal amount of EUR 119,353 thousand. The fair value of the open contracts amounted to EUR 521 thousand (asset), based on level 2 input factors.

Market comparison techniques are used in measuring fair value of currency forward. The fair value are based on brokers quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

14. CONTINGENT LIABILITIES AND SECURITY

14.1. Security

A) Security Relating to members of the Group established in Poland

As at September 30, 2016, certain members of the Group have established the following security for the repayment of claims of Commerzbank Aktiengesellschaft, Filiale Luxemburg acting as security agent (the "Security Agent") arising from the parallel debt in accordance with the intercreditor agreement dated July 4, 2014 (as amended and restated) entered into in connection with the EUR 60 million and PLN 200 million RCF Agreement dated July 4, 2014 (as amended and restated) between, *inter alios*, Pfeiderer Group S.A. and certain of its subsidiaries as borrowers, the Security Agent and certain financial institutions as original lenders and the EUR 321,684 thousand 7.875% Senior Secured Notes due 2019 issued by Pfeiderer GmbH.

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Security interest over shares

Pfleiderer Group S.A. has entered into agreements for financial and registered pledges over shares in Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Silekol sp. z o.o. and has granted powers of attorney to exercise corporate rights from the pledged shares in these companies in favour of the Security Agent. The registered pledges over shares were established up to the maximum secured amount of EUR 1,286 million.

Security interest over receivables under bank account agreements

Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o. , Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Silekol sp. z o.o. have entered into agreements for financial and registered pledges over bank accounts and have granted powers of attorney to dispose of funds from their bank accounts in favour of the Security Agent. The registered pledges over bank accounts were established up to the maximum secured amount of EUR 1,286 million.

Pledges over movable assets and rights

Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o. , Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Silekol sp. z o.o. have entered into agreements for registered pledges over movable property and rights (*zbiór rzeczy ruchomych i praw*). The registered pledges over movable property and rights were established up to the maximum secured amount of EUR 1,286 million.

Assignments of rights under commercial contracts, intercompany loan agreements and insurance agreements

Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o. , Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Silekol sp. z o.o. have entered into agreements for assignment of rights under commercial contracts, intercompany loan agreements and insurance agreements.

Mortgages

The following mortgages up to the amount of EUR 1,286 million (each) have been established in favour of the Security Agent:

- (a) Mortgage over properties and perpetual usufructs of Pfleiderer Grajewo Sp. z o.o. in Grajewo and Rajgród;
- (b) Mortgage over properties and perpetual usufructs of Pfleiderer Prospan S.A. in Wieruszów and Klatka;
- (c) Mortgage over perpetual usufructs of Pfleiderer MDF Sp. z o.o. in Grajewo; and
- (d) Mortgage over properties and perpetual usufructs of Silekol Sp. z o.o. in Kędzierzyn-Koźle.

Submissions to enforcement

Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF sp. z o.o. , Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Silekol sp. z o.o. have executed the submissions to enforcement (*oświadczenie o poddaniu się egzekucji*) in favour of the Security Agent up to the amount of EUR 1,286 million.

B) Security Relating to members of the Group established in Germany

As at September 30, 2016, certain members of the Group have established the following securing the liabilities under the RCF Agreement of EUR 60 million and PLN 200 million as well as the liabilities under the Pfleiderer GmbH with nominal value of EUR 321,684 thousand 7.875% Senior Secured Notes due 2019 and certain hedging arrangements:

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Security interest over shares

Pfleiderer GmbH, Pfleiderer Holzwerkstoffe GmbH and Pfleiderer Vermögensverwaltung GmbH & Co. KG as pledgors have granted pledges over shares in Pfleiderer GmbH, Pfleiderer Holzwerkstoffe GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH and Jura-Spedition GmbH and over partnership interests in Pfleiderer Vermögensverwaltung GmbH & Co. KG.

Security interest over bank accounts

Pfleiderer GmbH, Pfleiderer Holzwerkstoffe GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH, Jura-Spedition GmbH and Pfleiderer Vermögensverwaltung GmbH & Co. KG as pledgers, have granted pledges over their bank accounts.

Security interest over receivables

Pfleiderer GmbH, Pfleiderer Holzwerkstoffe GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH, Jura-Spedition GmbH and Pfleiderer Vermögensverwaltung GmbH & Co. KG as assignors, have assigned as security their receivables under the intercompany loans, trade and insurance receivables.

Security interest over moveable assets

Pfleiderer Holzwerkstoffe GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH as transferors, have transferred as security their moveable assets (including machinery and equipment, inventory).

Security interest over intellectual property

Pfleiderer GmbH, Pfleiderer Holzwerkstoffe GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH and Pfleiderer Arnsberg GmbH as assignors, have assigned as security their intellectual property rights.

Mortgages

Land charges (*Grundschulden*) over real estate owned by Pfleiderer Holzwerkstoffe GmbH and Pfleiderer Baruth GmbH have also been granted as security.

C) Guarantees by the members of the Group

As at September 30, 2016, certain members of the Group have guaranteed the liabilities under the RCF Agreement of EUR 60 million and PLN 200 million as well as the liabilities under the 7.875% senior notes with the nominal value of EUR 321,684 thousand issued by Pfleiderer GmbH and due in 2019. These members of the Group are: Pfleiderer Group S.A., Pfleiderer 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., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Silekol sp. z o.o.

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14.2. Contingent liabilities

Eastern Europe:

Following a dawn-raid in October 2011, on March 30, 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., Pfeleiderer Group S.A. and Pfeleiderer Prospan S.A., regarding possible horizontal price fixing and exchange of information on conditions of sale in the chip-board 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 Pfeleiderer Group S.A. and/or Pfeleiderer Prospan S.A. in these proceedings amount to 10% of their respective taxable 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 condensed interim 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 September 30, 2016, no provision has been recognized by the Group in these condensed interim consolidated financial statements.

Western Europe:

An earlier investigation by the German Federal Cartel Office in 2009 concluded in 2011 that Pfeleiderer GmbH (then, Pfeleiderer AG) and certain competitors had, for a period from at least 2004 through 2007, violated German competition law by coordinating price increases and minimum prices in the German market. As a result, the German Federal Cartel Office in September 2011 fined this group of market participants and certain individuals a total of EUR 42 million on the grounds of violating German and European competition laws by entering into anticompetitive agreements. Pfeleiderer GmbH's share of the fine is settled in yearly installments.

Two of the Pfeleiderer Group's customers have sued the Pfeleiderer Group for damages in connection with these antitrust violations. There are other companies seeking compensation in connection with these antitrust violations. The outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Depending on the outcome of the negotiations and/or the proceedings, the Group could be obligated to make substantial payments.

There is a risk that additional follow-on claims for damages might be raised by third parties, including customers, against the Group in respect thereof. The amount of any such follow-on claims for damages cannot currently be determined with any certainty, but could be substantial. The realization of any of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.

In December 2012, W. Classen GmbH & Co. KG ("Classen"), one of the Pfeleiderer Group's current customers, filed an action against the custodian (Sachwalter) of Pfeleiderer GmbH (then Pfeleiderer AG) seeking the acceptance of its claim to the insolvency schedule (Insolvenztabelle) filed in May 2012. After the lifting of insolvency proceedings, which became legally effective on December 31, 2012, Classen extended its claim to Pfeleiderer GmbH. Classen claims damages amounting to EUR 22 million (plus interest) on the same grounds as in the claim against Pfeleiderer Baruth GmbH, as described below. Any claim against Pfeleiderer GmbH would in general be reduced to the applicable insolvency quota (Insolvenzquote) according to the insolvency plan (Insolvenzplan) of Pfeleiderer AG.

In December 2012, Classen also filed an action for damages with the regional court of Düsseldorf

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(Landgericht Düsseldorf) against Pfeiderer Baruth GmbH (then: Pfeiderer Faserplattenwerk Baruth GmbH) amounting to approximately EUR 67 million (plus interest). The plaintiff claims to have suffered damages due to the Chipboard Cartel. Plaintiff has reduced claim from ca. € 67 million to € 55,4 million in its latest statement dated May 11th 2016. The proceeding is still pending and the outcome, i.e. the potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet.

In December 2014 Alno AG ("Alno"), one of the Pfeiderer Group's customers, has claimed substantial damages from Pfeiderer GmbH on its own behalf and on behalf of two of its subsidiaries. Alno claims to have suffered damages due to the Chipboard Cartel and has filed actions for damages against Pfeiderer GmbH and another party in late December 2015 (in total EUR 32.9 million plus interest). The proceeding is still pending and the outcome, i.e. the potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet. Plaintiff has announced another expert opinion to clarify its claim until the end of 2016; it is intended that parties try to negotiate an out-of-court settlement.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfeiderer Group's customers, filed an action for damages with the regional court of Hanover (Landgericht Hannover) against Glunz AG amounting to approximately EUR 26 million (plus interest). The plaintiff claims to have suffered damages due to the Chipboard Cartel. Following a third party notice (Streitverkündung) by Glunz, Pfeiderer GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court has passed a judgement on May 31st 2016 according to which the claim are justified on the merits but subject to further discussion regarding quantum. Pfeiderer GmbH cannot assess the likelihood of success or the potential costs that may arise in connection with this litigation nor the amount of damages that it might be required to pay. Pfeiderer GmbH's obligation for substantial payments may result from a claim based on joint and several liability (Gesamtschuld), if Glunz or any other third party is obligated to pay compensation to Oeseder.

Hüls group seeks damages for all chipboards supplied Pfeiderer and other producers from 2002 to 2008. Pfeiderer has given a waiver of statute of limitations until 31 December 2016. A preliminary assessment of Hüls' expert opinion provided by Pfeiderer's expert says that Hüls' expert disregards the capacity utilization (omitted variable bias) and aggregates all products and suppliers. Parties are trying to negotiate a settlement until the end of 2016. The outcome, i.e. the potential costs that may arise in connection with this claim or the amount of damages that might be required to be paid, cannot be assessed yet.

The Western European segment is subject to certain tax risks. In light of the change in shareholders in 2012, there are certain risks with regard to the amount of tax loss utilized by the Group. Due to the acquisition of all shares in Pfeiderer GmbH (formerly Pfeiderer AG) by Atlantik S.A. in November 2012, tax losses generated by the German subsidiaries in 2012 may not be utilized in full. The extent to which this also applies to an entity with joint tax-filing status has yet to be fully determined. It cannot be ruled out that the fiscal authorities will reject the position taken by Pfeiderer Holzwerkstoffe GmbH, which could in turn lead to an assessment requiring payments of tax arrears. As a result of the change in shareholders of Pfeiderer GmbH that occurred as of January 19, 2016, it is possible that the tax losses for the financial year 2016 may also not be recovered. It cannot be ruled out that the fiscal authorities will reject the position taken by Pfeiderer GmbH, which could in turn lead to an assessment requiring payment of tax arrears. In addition, there was a change in shareholders at the level of the shareholder of Pfeiderer GmbH in December 2015, which may lead to uncertainty with regard to the possibility of tax loss utilization for the 2015 financial year.

In 2014 Pfeiderer GmbH (and its subsidiaries) recognized valuation allowances on receivables to the so-called "Non Core"- companies of the former Pfeiderer Group on account of interest receivable and foreign currency gains on these receivables and treated these valuation allowances as tax-deductible. It cannot be ruled out that the fiscal authorities will reject the position taken by Pfeiderer GmbH, which could cause additional tax payments.

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

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(all amounts in EUR thousand unless otherwise stated)

15. SIGNIFICANT RELATED PARTIES TRANSACTIONS

No transactions with related parties other than described below were conducted in the reporting period.

Remuneration of key management personnel

According to the new organizational structure the Management Board consists of Michael Wolff (President and CEO), Dirk Hardow (COO, appointed on September 15, 2016 with effect as of November 1, 2016), Rafał Karcz (CAO), Richard Mayer (CFO) and Wojciech Gałkiewicz (CSO). Mr. Gerd Schubert performed the function of Member of the Management Board of the Company, Chief Operating Officer until June 1, 2016.

Remuneration of members of the Company's Management Board as well as the Company's Supervisory Board, including bonuses, paid and payable, for the reporting period:

'000 Euro	Jan.1 - Sept. 30, 2016	Jan.1 - Sept. 30, 2015
Remuneration of Management Board	3,460	1,002
Remuneration of Supervisory Board	405	122
	3,865	1,124

Beside the regular remuneration of Mr. Gerd Schubert, the Group recorded a provision for severance payment (termination benefits) due to his dismissal in the amount of EUR 630 thousand.

The aforementioned remuneration includes all payments from all Group companies to the Board. No member of the Company's Management Board had outstanding loan-related debt towards the Group.

As at September 30, 2016, members of the Management and Supervisory Boards held the following number of Pfeleiderer Group S.A. shares:

Function	Name	Number of shares
Member of the Management Board	Wojciech Gałkiewicz	5,400
Member of the Management Board	Rafał Karcz	3,472

The other members of the Company's Management Board and Supervisory Board had no shares in the Company.

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

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nine month periods ended September 30, 2016**

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16. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

No events of special significance occurred following the close of the first three quarters of 2016 that – if they had occurred prior to the close of the end of the reporting period – would have called for a different presentation of the Company's net assets, financial position and results of operations.

Michael Wolff
President of the Management Board, Chief Executive Officer

Richard Mayer
Member of the Management Board, Chief Financial Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Sales Officer

Rafał Karcz
Member of the Management Board, Chief Administration Officer

Dirk Hadrow
Member of the Management Board, Chief Operations Officer

Wrocław, November 7, 2016

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

1. Unaudited condensed separate Parent interim financial statements for the three and nine month periods ended 30 September 2016 and 31 December 2015

Unaudited interim condensed separate Parent statement of financial position

(all amounts in PLN thousand)

	<u>30 Sep 2016</u>	<u>31 Dec 2015</u>
Assets		
Property, plant and equipment	364	162,348
Intangible assets	-	4,045
Investments in subsidiaries	2,109,553	785,743
Other non-current financial assets	75	75
Non-current loans granted to subsidiaries	101,725	10,473
Non-current receivables – advances paid on fixed assets	-	814
Non-current assets	<u>2,211,717</u>	<u>963,498</u>
Inventories	-	55,161
Trade receivables and other	5,213	415,454
Income tax receivables	-	375
Cash and cash equivalents	2,815	30,983
Fair value of hedging instruments	-	2,436
Current assets	<u>8,028</u>	<u>504,409</u>
TOTAL ASSETS	<u>2,219,745</u>	<u>1,467,907</u>
Equity		
Share capital	21,351	16,376
Share premium	625,240	289,806
Reserves	376,923	676,532
Retained earnings	105,629	92,188
Total equity	<u>1,129,143</u>	<u>1,074,902</u>
Liabilities		
Employee related payables	275	7,773
Deferred tax liabilities	1,129	587
Fair value of hedging instruments	-	455
Total non-current liabilities	<u>1,404</u>	<u>8,815</u>
Loans and borrowings	786,339	-
Income tax payable	925	-
Liabilities to related parties under debt securities	275,146	233,767
Fair value of hedging instruments	-	51
Trade and other payables	24,819	137,020
Employee related payables	1,969	13,352
Total current liabilities	<u>1,089,198</u>	<u>384,190</u>
Total liabilities	<u>1,090,602</u>	<u>393,005</u>
TOTAL EQUITY AND LIABILITIES	<u>2,219,745</u>	<u>1,467,907</u>

Unaudited interim condensed separate Parent statement of profit or loss and other comprehensive income
(all amounts in PLN thousand)

	Nine months ended 30 Sep 2016	Nine months ended 30 Sep 2015	Three months ended 30 Sep 2016	Three months ended 30 Sep 2015
Revenue	395,450	468,140	95,029	152,721
Cost of sales	(327,412)	(402,586)	(75,709)	(129,119)
Profit on sales	68,038	65,554	19,320	23,602
Other income	3,411	9,728	809	2,528
Distribution expenses	(25,895)	(25,873)	(7,202)	(8,262)
General and administrative expenses	(28,445)	(21,285)	(9,023)	(8,777)
Other expenses	(1,808)	(2,771)	(319)	(1,441)
Results from operating activities	15,301	25,353	3,585	7,650
Financial income	94,207	47,043	22,157	116
Financial expenses	(22,752)	(5,624)	(8,175)	(1,561)
Net financing income	71,455	41,419	13,982	(1,445)
Profit before tax	86,756	66,772	17,567	6,205
Income tax expense	(4,209)	(4,005)	(3,453)	(1,216)
Net profit for the reporting period	82,547	62,767	14,114	4,989
OTHER COMPREHENSIVE INCOME				
Items that are or may be reclassified to profit or loss				
Cash flow hedge – effective portion of changes in fair value	(3,972)	6,942	2,832	(582)
Cash flow hedge – reclassified to profit or loss	994	(5,358)	(268)	(1,099)
Cash flow hedge – settlement of the forward hedging the purchase of shares	23,048	-	-	-
Other comprehensive income (loss)	20,070	1,584	2,564	(1,681)
Total comprehensive income for the period	102,617	64,351	16,678	3,308
Basic and diluted earnings per share (PLN)	1.30	1.26	0.22	0.10

Unaudited interim condensed separate Parent statement of changes in equity
(all amounts in PLN thousand)

For the nine month period ended 30 September 2016

	Share capital	Share premium	Statutory reserve funds	Other reserves	Cash flow hedges	Retained earnings	Total
1 Jan 2016	16,376	289,806	538,398	140,000	(1,866)	92,188	1,074,902
Comprehensive income for the period							
Net profit	-	-	-	-	-	82,547	82,547
Other comprehensive income for the period	-	-	-	-	20,070	-	20,070
Total comprehensive income for the period	-	-	-	-	20,070	82,547	102,617
Transactions with owners recognised in equity							
The registration of new share capital	4,975	335,434	(324,084)	-	-	-	16,325
Transfer of 2015 net profit to statutory reserve funds	-	-	4,405	-	-	(4,405)	-
Dividend payment	-	-	-	-	-	(64,701)	(64,701)
Total transactions with owners recognised in equity	4,975	335,434	(319,679)	-	-	(69,106)	(48,376)
30 Sep 2016	21,351	625,240	218,719	140,000	18,204	105,629	1,129,143

For the nine month period ended 30 September 2015

	Share capital	Share premium	Statutory reserve funds	Cash flow hedges	Retained earnings	Total
1 Jan 2015	16,376	289,806	293,765	1,213	83,631	684,791
Comprehensive income for the period						
Net profit	-	-	-	-	62,767	62,767
Other comprehensive income for the period	-	-	-	1,584	-	1,584
Total comprehensive income for the period	-	-	-	1,584	62,767	64,351
Transactions with owners recognised in equity						
Transfer of 2014 net profit to statutory reserve funds	-	-	60,549	-	(60,549)	-
Total transactions with owners recognised in equity	-	-	60,549	-	(60,549)	-
30 Sep 2015	16,376	289,806	345,314	2,797	85,849	749,142

Unaudited interim condensed separate Parent statement of cash flows
(all amounts in PLN thousand)

	Nine months ended 30 Sep 2016	Nine months ended 30 Sep 2015
Net profit for the reporting periods	82,547	62,767
Adjustments for:	(105,801)	(17,194)
Depreciation and amortisation	16,497	16,076
Foreign exchange gains	(23,732)	(5,166)
Dividends and interests for the period	(46,767)	(40,634)
Gain on investing activities	(121)	(28)
Income tax disclosed in profit or loss of the period	4,209	4,005
Result on forward contracts	(994)	5,358
Other	-	(658)
Changes in:		
- trade and other receivables	23,625	(25,263)
- inventories	(351)	5,615
- trade and other payables	(77,415)	24,088
- employee benefit obligations	(752)	(587)
Cash generated from operating activities	(23,254)	45,573
Interest received	86	37
Interest paid	(1)	(26)
Income tax paid	(2,207)	(5,657)
Net cash from operating activities	(25,376)	39,927
Cash flows provided by investing activities		
Disposal of property, plant and equipment	121	69
Dividend received	65,076	45,366
Acquisition of non-controlling interests	(532,798)	-
Settlement of forward contract hedging the acquisition of financial interests	21,330	-
Disposal of a subsidiary	-	18,098
Acquisition of intangible assets and property, plant and equipment	(33,064)	(24,037)
Granting of loan to subsidiaries	(98,000)	-
Repayment of loan by subsidiaries	9,500	-
Net cash (used in)/ provided by investing activities	(567,835)	39,496
Cash flows from financing activities		
Inflows from share issue	336,345	-
Prepaid costs related to the planned capital increase	-	(4,734)
Increase in borrowings and other debt instruments	193,919	-
Repayment of borrowings and other debt instruments	-	(11,137)
Redemption of debt securities	(1,084,150)	(763,011)
Issue of debt securities	1,125,537	713,781
Interest paid	(6,608)	(4,973)
Net cash provided by/ (used in) financing activities	565,043	(70,074)
Total cash flows	(28,168)	9,349
(Decrease)/ Increase in cash	(28,168)	9,349
Cash at beginning of the period	30,983	4,527
Cash at end of the period	2,815	13,876