POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2016

year

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

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

for the financial year 2016, covering the period from January 1st to December 31st 2016,

including consolidated financial statements prepared in accordance with the IFRS

currency: EUR

Date of filing: April 26th 2017

Pfleiderer Group Spółka Akcyjna

(full name)

Pfleiderer Group SA (abbreviated name)	**wood products** (sector according to the Warsaw Stock Exchange's classification)
53-611 (postal code)	**Wrocław** (city/town)
ul. STRZEGOMSKA (street)	**42AB** (number)
+48 71 747 11 00 (telephone number)	**+48 71 747 11 41** (fax number)
office@pfleiderer.pl (e-mail)	www.pfleiderer.pl (web site)
719-10-00-479 (NIP – Tax Identification Number)	**4500933817** (REGON – Industry Registration Number)

FINANCIAL HIGHLIGHTS	EUR '000 2016	2015
I. Sales revenue	929 588	374 160
II. Operating profit/(loss)	37 383	35 704
III. Profit/(loss) before tax	13 066	33 110
IV. Net profit	14 748	26 810
V. Net profit attributable to equity holders of the parent	14 748	26 810
VI. Net cash provided by (used in) operating activities	122 804	56 728
VII. Net cash provided by (used in) investing activities	-62 273	-23 891
VIII. Net cash provided by (used in) financing activities	16 464	-16 141
IX. Total net cash flow	76 995	16 696
X. Total assets	954 580	397 079
XI. Liabilities	683 325	117 931
XII. Non-current liabilities	472 203	42 461
XIII. Current liabilities	211 122	75 470
XIV. Equity	271 255	279 148
XV. Share capital	6 692	5 573
XVI. Outstanding shares at the end of the reporting period	64 701 007	49 624 000
XVII. Weighted average diluted number of shares	63 918 321	49 624 000
XVIII. Earnings per ordinary share	0,23	0,53
XIX. Diluted earnings per ordinary share	0,23	0,53
XX. Book value per share	4,19	5,63
XXI. Declared or paid dividend per share	0,23	0,00

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First name and surname	Position	Signature
April 26th 2017	Michael Wolff	President of the Management Board	
April 26th 2017	Wojciech Gątkiewicz	Member of the Management Board	
April 26th 2017	Dirk Hardow	Member of the Management Board	
April 26th 2017	Rafał Karcz	Member of the Management Board	
April 26th 2017	Richard Mayer	Member of the Management Board	

Pfleiderer Group S.A. Group (formerly Pfleiderer Grajewo S.A. Group)

Opinion and Report

of the Independent Auditor

Financial Year ended

31 December 2016

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Pfleiderer Group S.A. with its registered office in Wrocław, ul. Strzegomska 42AB ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements for the financial year ended 31 December 2016.

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

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

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements of Pfleiderer Group S.A. Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with applicable regulations that apply to the consolidated financial statements of the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

Management of the Parent Entity is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act and the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Parent Entity and the Group's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Parent Entity and Pfleiderer Group S.A. Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree, included in the statement of corporate governance, in all material respects:

- as been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the consolidated financial statements.

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

Signed on the Polish original

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

25 April 2017

Pfleiderer Group S.A. Group (formerly Pfleiderer Grajewo S.A. Group)

Report on the audit

of the consolidated financial statements

Financial Year ended

31 December 2016

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Contents

1. General

1.1. Identification of the Group

1.1.1. Name of the Group

Pfleiderer Group S.A. Group (formerly Pfleiderer Grajewo S.A. Group), ("the Group")

In accordance with the resolution of the General Meeting dated 29 June 2016, Group changed its name from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. Change was registered in the National Court Register on 30 September 2016.

1.1.2. Registered office of the Parent Company of the Group

ul. Strzegomska 42 AB
53-611 Wrocław

During the financial year ended 31 December 2016, the Parent Company changed its registered office. Previous address: ul. Wiórowa 1, 19-203 Grajewo. The change was registered in the National Court Register on 30 September 2016.

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

Registration court:	District Court for Wrocław-Fabryczna in Wrocław, VI Commercial Department of the National Court Register
Date:	9 May 2001
Registration number:	KRS 0000011422
Share capital as at the end of reporting period:	PLN 21,351,332.31

1.1.4. Management of the Parent Entity

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

As at 31 December 2016, the Management Board of the Parent Entity was comprised of the following members:

- Michael Wolff – President of the Management Board,
- Wojciech Gątkiewicz – Member of the Management Board,
- Rafał Karcz – Member of the Management Board,
- Richard Mayer – Member of the Management Board,
- Dirk Hardow – Member of the Management Board.

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

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

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

In accordance with the resolution of the Supervisory Board dated 1 June 2016, Mr. Gerd Schubert was recalled from the position of Member of the Management Board – Operations Director.

In accordance with the resolution of the Supervisory Board dated 15 September 2016, Mr. Dirk Hardow was appointed to the position of Member of the Management Board – Operations Director, effective 1 November 2016.

In accordance with the resolution of the Supervisory Board dated 15 September 2016, Mr. Wojciech Gątkiewicz was recalled from the position of Member of the Management Board – Transformation Director and appointed to the position of Member of the Management Board – Sales Director.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname:	Mirosław Matusik
Registration number:	90048

1.2.2. Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

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

1.3. Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 29 June 2016.

The consolidated financial statements were submitted to the Registration Court on 18 July 2016.

1.4. Audit scope and responsibilities

The consolidated financial statements were audited in accordance with the contract dated 18 November 2016, concluded on the basis of the resolution of the General Meeting dated 23 June 2010 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 14 to 18 November 2016, from 14 to 27 January 2017 and additional procedures have been performed outside the Parent Company's head office in the period from 27 February to 7 April 2017.

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for the report on the Group's activities.

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

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

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

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

The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000 with amendments) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.

2. Financial analysis of the Group

2.1. Summary analysis of the consolidated financial statements

2.1.1. Consolidated statements of financial position

ASSETS	31.12.2016 EUR '000	% of total	31.12.2015 EUR '000	% of total
Assets				
Property, plant and equipment	548,863	57.5	163,803	41.3
Intangible assets	83,091	8.7	957	0.2
Goodwill	66,171	6.9	25,289	6.4
Other long-term investments	515	0.1	18	-
Investment property	875	0.1	905	0.2
Deferred tax assets	5,948	0.6	4,770	1.2
Advances paid on fixed assets	3,016	0.3	7,079	1.8
Government grant receivables	12,921	1.4	21,152	5.3
Fair value of hedging instruments	2	-	12	-
Non-current assets	721,402	75.6	223,985	56.4
Inventories	91,903	9.6	36,635	9.2
Trade and other receivables	42,531	4.5	113,084	28.5
Income tax receivable	376	-	101	-
Cash and cash equivalents	97,726	10.2	20,720	5.2
Government grant receivables	642	0.1	1,147	0.3
Other short-term financial assets	-	-	767	0.2
Fair value of hedging instruments	-	-	640	0.2
Current assets	233,178	24.4	173,094	43.6
TOTAL ASSETS	954,580	100.0	397,079	100.0

EQUITY AND LIABILITIES	31.12.2016 EUR '000	% of total	31.12.2015 EUR '000	% of total
Equity				
Share capital	6,692	0.7	5,573	1.4
Share premium	146,375	15.3	68,250	17.2
Statutory reserves fund	91,801	9.6	90,808	22.9
Reserves	(13,937)	1.4	(2,210)	0.6
Unregistered share capital	-	-	75,573	19.0
Retained earnings	40,324	4.2	41,154	10.4
Equity attributable to equity holders of the Company	271,255	28.4	279,148	70.3
Total equity	271,255	28.4	279,148	70.3
Liabilities				
Loans and borrowings	329,762	34.6	9,598	2.4
Employee related payables	56,893	6.0	2,267	0.6
Provisions	3,694	0.4	201	0.1
Deferred tax liabilities	64,176	6.7	3,749	0.9
Fair value of hedging instruments	-	-	107	-
Deferred income from government grants	17,439	1.8	26,539	6.7
Other non-current liabilities	239	-	-	-
Non-current liabilities	472,203	49.5	42,461	10.7
Loans and borrowings	10,898	1.2	5,089	1.3
Income tax payable	10,559	1.1	853	0.2
Trade and other payables	161,414	16.9	62,476	15.7
Employee related payables	22,118	2.3	5,624	1.4
Provisions	5,132	0.5	-	-
Deferred income from government grants	1,001	0.1	1,428	0.4
Current liabilities	211,122	22.1	75,470	19.0
Total liabilities	683,325	71.6	117,931	29.7
TOTAL EQUITY AND LIABILITIES	954,580	100.0	397,079	100.0

2.1.2. Consolidated statements of profit and loss and other comprehensive income

	1.01.2016 - 31.12.2016 EUR '000	% of total sales	1.01.2015 - 31.12.2015 EUR '000	% of total sales
Revenue	929,588	100.0	374,160	100.0
Cost of sales	(711,527)	76.5	(299,170)	80.0
Profit on sales	218,061	23.5	74,990	20.0
Other income	8,905	0.9	6,175	1.6
Distribution expenses	(111,449)	12.0	(27,865)	7.4
General and administrative expenses	(49,498)	5.3	(15,068)	4.0
Other expenses	(28,636)	3.1	(2,528)	0.7
Results from operating activities	37,383	4.0	35,704	9.5
Financial income	5,396	0.6	522	0.1
Financial expenses	(29,713)	3.2	(3,116)	0.8
Net financing costs	(24,317)	(2.6)	(2,594)	(0.7)
Profit before tax	13,066	1.4	33,110	8.8
Income tax expense	1,682	0.2	(6,300)	1.7
Net profit for the reporting period	14,748	1.6	26,810	7.1
Attributable to shareholders of the parent	14,748	1.6	26,810	7.1
OTHER COMPREHENSIVE INCOME				
Actuarial gains and losses	(5,321)	0.6	-	-
Exchange rate differences on translation to presentation currency	(6,081)	0.7	-	-
Items that will not be reclassified to profit or loss	**(11,402)**	**1.2**	**-**	**-**
Exchange rate differences on translation on foreign operations	-	-	107	0.0
Cash flow hedges - effective portion of changes in fair value net of deferred taxation	(1,195)	0.1	(667)	0.2
Cash flow hedge -net change in fair value reclassified to current year profit or loss net of deferred taxation	(47)	-	(132)	0.0
Cash flow hedge - effective portion of changes in fair value of the cash flow hedge for purchase of shares - net of tax	(3,387)	0.4	-	-
Cash flow hedge - net change in fair value related to purchase of shares reclassified to goodwill net of tax	4,304	0.5	-	-
Items that are or may be reclassified to profit or loss	**(325)**	**0.1**	**(692)**	**0.2**
Other comprehensive income	***(11,727)***	***1.3***	***(692)***	***0.2***
Total comprehensive income for the period	*3,021*	0.3	*26,118*	7.0
Total comprehensive income for the period attributable to:				
Shareholders of the Company	3,021	0.3	26,118	7.0
Non-controlling interests	-	-	-	-
Total comprehensive income for the period	3,021	0.3	26,118	7.0
Basic and diluted earnings per share (EUR)	0.23	-	0.53	-

2.2. Selected financial ratios

	2016	2015	2014
1. Return on sales			
profit for the period x 100% / revenue	1.6%	7.2%	6.8%
2. Return on equity			
profit for the period x 100% / equity - profit for the period	5.7%	10.4%	15.8%
3. Debtors' days			
average trade receivables (gross) x 365 days / revenue	8 days	21 days	21 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	71.6%	29.7%	37.8%
5. Current ratio			
current assets / current liabilities	1.1	2.3	1.1

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

3. Detailed report

3.1. Accounting principles

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

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

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

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

3.2. Basis of preparation of the consolidated financial statements

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

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

3.3. Method of consolidation

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

3.4. Goodwill arising on consolidation

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

3.5. Consolidation of equity and calculation of non-controlling interest

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

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

The equity of the Group only includes appropriate components of the equity of subsidiaries arising after the Parent Entity obtained control of the subsidiaries.

3.6. Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

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

Signed on the Polish original
....
Mirosław Matusik
Key Certified Auditor
Registration No. 90048
Limited Liability Partner with power of attorney

25 April 2017

PFLEIDERER

INSPIRATIONS CLOSE
TO YOU

PFLEIDERER GROUP

ANNUAL CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2016

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CONTENTS

MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated 19 February 2009 (consolidated text: Official Journal from 2014, item 133), the Management Board of Pfleiderer Group S.A. (the Parent) represents that to the best of its knowledge the annual consolidated financial statements for the year ended 31 December 2016 and the comparative information have been prepared in compliance with the applicable accounting policies and give a true and fair view of the Pfleiderer Group S.A. Group's assets and financial results, and that the annual Management Board report on the operations of the Pfleiderer Group S.A. and the Capital Group for the year ended 31 December 2016 gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

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

Michael Wolff
President of the Management Board

Richard Mayer
Member of the Management Board, Chief Financial Officer

Dirk Hardow
Member of the Management Board, Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Sales Officer

Rafał Karcz
Member of the Management Board, Chief Administration Officer

Wrocław, 25 April 2017

(all amounts in EUR thousand)

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	NOTE	DEC 31 2016	DEC 31 2015
Property, plant and equipment	13	548 863	163 803
Intangible assets	14	83 091	957
Goodwill	6	66 171	25 289
Long term investments	27a	515	18
Investment property	16	875	905
Deferred tax asset	17	5 948	4 770
Advances paid on fixed assets		3 016	7 079
Government grants receivable	18	12 921	21 152
Other non current assets		2	12
Non-current assets		**721 402**	**223 985**
Inventories	19	91 903	36 635
Trade and other receivables	20	42 531	113 084
Income tax receivable		376	101
Cash and cash equivalents		97 726	20 720
Government grants receivable	18	642	1 147
Other short-term financial assets	15	-	767
Fair value of hedging instruments	27f	-	640
Current assets		**233 178**	**173 094**
TOTAL ASSETS		**954 580**	**397 079**

EQUITY AND LIABILITIES EQUITY			
Share capital	21	6 692	5 573
Share premium	21	146 375	68 250
Statutory reserves fund		91 801	90 808
Reserves	21	-13 937	-2 210
Unregistered share capital		-	75 573
Retained earnings		40 324	41 154
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**271 255**	**279 148**
TOTAL EQUITY	21	**271 255**	**279 148**

LIABILITIES			
Loans and borrowings	23	329 762	9 598
Employee related payables	24	56 893	2 267
Provisions	25	3 694	201
Deferred tax liabilities	17	64 176	3 749
Deferred income from government grants	18	17 439	26 539
Fair value of hedging instruments	27f	-	107
Other non-current liabilities		239	-
Non-current liabilities		**472 203**	**42 461**
Loans and borrowings	23	10 898	5 089
Income tax payable		10 559	853
Trade and other payables	26,27d	161 414	62 476
Employee related payable	24	22 118	5 624
Provisions	25	5 132	-
Deferred income from government grants	18	1 001	1 428
Current liabilities		**211 122**	**75 470**
Total liabilities		**683 325**	**117 931**
TOTAL EQUITY AND LIABILITIES		**954 580**	**397 079**

The notes are an integral part of these consolidated financial statements

(all amounts in EUR thousand)

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	1 JAN – 31 DEC 2016	1 JAN – 31 DEC 2015
Revenue	5	929 588	374 160
Cost of sales	11	-711 527	-299 170
Profit on sales		**218 061**	**74 990**
Other income	7	8 905	6 175
Distribution expenses	11	-111 449	-27 865
General and administrative expenses	11	-49 498	-15 068
Other expenses	8	-28 636	-2 528
Result from operating activities		**37 383**	**35 704**
Financial income		5 396	522
Financial expenses		-29 713	-3 116
Net financing costs	10	**-24 317**	**-2 594**
Profit before tax		**13 066**	**33 110**
Income tax expense	12	1 682	-6 300
NET PROFIT FOR THE REPORTING PERIOD		14 748	26 810
Attributable to shareholders of the parent		14 748	26 810
OTHER COMPREHENSIVE INCOME			
Actuarial gains and losses - post employement benefits		-5 321	-
Exchange rate differences on translation to presentation currency		-6 081	-
Items that will not be reclassified to profit or loss		**-11 402**	**-**
Exchange rate differences on translation of foreign operations		-	107
Cash flow hedges- effective portion of changes in fair value net of tax		-1 195	-667
Cash flow hedges- net change in fair value reclassified to current year profit or loss net of tax		-47	-132
Cash flow hedge - effective portion of changes in fair value of the cash flow hedge for purchase of shares - net of tax		-3 387	-
Cash flow hedge - net change in fair value related to purchase of shares reclassified to goodwill net of tax		4 304	-
Items that are or may be reclassified to profit or loss		**- 325**	**-692**
OTHER COMPREHENSIVE INCOME		**-11 727**	-692
Total comprehensive income for the period		**3 021**	**26 118**
COMPREHENSIVE INCOME FOR THE PERIOD			
Shareholders of the Company		3 021	26 118
Non-controlling interests		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3 021	26 118
Basic and diluted earnings per share (EUR)	22	0.23	0.53

The notes are an integral part of these consolidated financial statements

(all amounts in EUR thousand)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Financial year ended 31 December 2016

				STATUTORY RESERVES FUND		RESERVES					
	SHARE CAPITAL	SHARE PREMIUM	UN-REGISTERED ISSUANCE OF SHARES	RESERVE FOR OWN SHARES	OTHER RESERVE FUNDS	REVALUATION RESERVE	Translation reserve	ACTUARIAL GAINS AND LOSSES	CASH FLOW HEDGES	RETAINED EARNINGS	**TOTAL**
AS AT JAN. 1, 2016	5 573	68 250	75 573	32 734	58 074	145	-1 973	0	-382	41 154	279 148
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	0	0	14 748	14 748
Other comprehensive income	0	0	0	0	0	0	-6 081	-5 321	-325	0	-11 727
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	0	0	0	0	0	0	-6 081	-5 321	-325	**14 748**	**3 021**
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	78 125	-75 573	0		0	0	0	0	0	3 671
Dividend payment	0	0	0	0	0	0	0	0	0	-14 585	-14 585
Total transactions with owners recognised in equity	**1 119**	**78 125**	**-75 573**	**0**	**993**	**0**	**0**	**0**	**0**	**-15 578**	**-10 914**
AS AT DEC. 31, 2016	6 692	146 375	0	32 734	59 067	145	-8 054	-5 321	-707	**40 324**	**271 255**

PFLEIDERER GROUP S.A. GROUP
(all amounts in EUR thousand)

Financial year ended 31 December 2015

				STATUTORY RESERVES FUND		RESERVES						
'000 EURO	SHARE CAPITAL	SHARE PREMIUM	UN-REGISTERED ISSUANCE OF SHARES	RESERVE FOR OWN SHARES	OTHER RESERVE FUNDS	REVALUATION RESERVE	FOREX ON TRANSLATING FOREIGN OPERATIONS	Translation reserve	ACTUARIAL GAINS AND LOSSES	CASH FLOW HEDGES	RETAINED EARNINGS	TOTAL
AS AT JAN. 1, 2015	5 573	68 250	0	0	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	0	0	26 810	26 810
Other comprehensive income	0	0	0	0	0	0	107	-132	0	-667	0	-692
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	0	0	0	0	0	0	107	-132	0	-667	26 810	26 118
Transactions with owners recognized in equity												
Transfer of part of 2014 net profit to statutory reserve funds			0	0	14 467	0	0	0	0	0	-14 467	0
Unregistered share issue	0	0	75 573	0	0	0	0	0	0	0	0	75 573
Own shares purchase	0	0	0	32 734	-32 734	0	0	0	0	0	0	0
Total transactions with owners recognized in equity	**0**	**0**	**75 573**	**32 734**	**-18 267**	**0**	**0**	**0**	**0**	**0**	**-14 467**	**75 573**
AS AT DEC. 31, 2015	5 573	68 250	75 573	32 734	58 074	145	0	-1 973	0	-382	41 154	279 148

The notes are an integral part of these consolidated financial statements

(all amounts in EUR thousand)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOTE	1 JAN– 31 DEC 2016	1 JAN– 31 DEC 2015
Net profit for the reporting year		**14 748**	**26 810**
Adjustments for:		115 789	34 293
Depreciation and amortisation	11	71 360	15 395
Foreign exchange gains	10	-1 664	-1 335
Interest for the period		26 028	2 457
Loss on investing activities	8	181	13
Income tax recognised in profit or loss of the period	12	-1 682	6 300
Amortisation of government grants	18	-1 402	-1 074
Result on forward contracts		-47	1 283
Other adjustments		-694	246
Changes in:			
- trade and other receivables		3 566	-2 322
- inventories		3 537	5 931
- trade and other payables		10 915	7 554
- employee benefit obligations		-1 208	-165
- provisions		6 899	10
Cash flows from operating activities		**130 537**	**61 103**
Interest received		-	53
Income tax paid		-7 733	-4 428
NET CASH PROVIDED BY OPERATING ACTIVITIES		122 804	56 728
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		132	71
Acquisition of intangible assets and property, plant and equipment		-53 580	-26 879
Income from disposal of discontinued operations		-	3 505
Repayment of loan by other entities		729	956
Acquisition of subsidiaries, net of cash acquired	31	-9 637	-105
Interest received		83	83
Expenditures related to settlement of derivatives		-	-1 522
NET CASH USED IN INVESTING ACTIVITIES		-62 273	-23 891
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings and other debt instruments		-22 272	-10 932
Transaction costs related to increase of share capital		-	-3 181
Share issue		80 864	-
Dividend payments		-14 585	-
Interest paid		-27 635	-2 028
Other financing activities		92	-
NET CASH PROVIDED BY/USED IN FINANCING ACTIVITIES		16 464	-16 141
Increase in cash		76 995	16 696
Cash at beginning of the period		20 720	4 332
Currency translation adjustment		11	-308
CASH AT END OF THE PERIOD		97 726	20 720

The notes are an integral part of these consolidated financial statements

CONTENTS

(all amounts in EUR thousand)

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 the business name of 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 30 September 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 consolidated financial statements of the Pfleiderer Group S.A. comprise the financial information of the Company and its subsidiaries (collectively the "Group"). They were authorized for issue by the Company's Management Board on 25 April 2017.

The Pfleiderer Group S.A. 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

The Pfleiderer Group consists of Pfleiderer Group S.A. and its subsidiaries (together "the Group" or "the Pfleiderer Group"). As of 31 December 2016, the Pfleiderer Group S.A. was the parent company with respect to the following subsidiaries:

		31 DEC 2016	31 DEC 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.)	Wrocław	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			
PCF GmbH, Neumarkt (previously Pfleiderer GmbH)	Neumarkt, Germany	100,00%	0,00%
Pfleiderer Deutchland GmbH (previously 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 GmbH	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	100,00%	0,00%

(all amounts in EUR thousand)

	Kingdom		
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, Pfleiderer Group S.A. acquired from Atlantik S.A. the only share in PCF GmbH 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 257,403 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. For further information please refer to Note 31.

Reorganization

In the course of 2016 the Pfleiderer Group S.A. performed an internal reorganization of the Group in Poland. The main purpose of the reorganization was to simplify the ownership and organizational structure of the Group in Poland as well as to increase the operational effectiveness.

The reorganization resulted in achieving a three layer organizational structure of the Group in Poland where: (i) the Company is a holding company, maintaining the position of the ultimate dominant entity of the entire Group; (ii) The Company's subsidiary, i.e. Pfleiderer Polska Sp. z o.o. conducts sale, purchase and administration activity for and on behalf of the remaining Group companies in Poland; (iii) the remaining Polish companies of the Group, whose shares are held by Pfleiderer Polska Sp. z o.o. conduct (as a rule) production activity only.

Within the reorganization, inter alia the following actions were performed:

1) Transfer, in a form of the contribution in-kind, of the Company's enterprise, covering production, sales and shared services functions, to a newly established company, Pfleiderer Grajewo Sp. z o.o. Transfer of the Company's enterprise to Pfleiderer Grajewo Sp. z o.o. was performed on 31 August 2016.
2) Change of the name of the Company from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. and a change of registered seat from Grajewo to Wrocław. The changes were effective from 30 September 2016.
3) Division through separation in the meaning of Article 529 § 1 item 4 of the Polish Commercial Companies Code of Pfleiderer Grajewo Sp. z o.o. As a result of the division the sales and shared services functions were transferred from Pfleiderer Grajewo Sp. z o.o. to Pfleiderer Polska Sp. z o.o. The division of Pfleiderer Grajewo Sp. z o.o. was registered with the National Court Register on 29 December 2016.
4) Contractual transfer of sales and shared service functions from Pfleiderer MDF Sp. z o.o. and Pfleiderer Prospan S.A. to Pfleiderer Polska Sp. z o.o. The transfer was performed on 29 December 2016.

On 29 December 2016 the Group achieved the targeted three layer structure of the entire Pfleiderer Group with Pfleiderer Group S.A., as the holding company with the shares listed on the Warsaw Stock Exchange, with Pfleiderer Deutschland GmbH and Pfleiderer Polska Sp. z o.o. as the sales companies and with production plants acting in the form of separate legal entities.

Beginning from 1 January 2017 all sales activities of Pfleiderer Group are concentrated solely in the two sales entities. Pfleiderer Polska Sp. z o.o., which is responsible for all customers, allocated to the sales territory "East" and Pfleiderer Deutschland GmbH, which is responsible for all customers allocated to the sales territory "West".

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS EU").
It was authorised for issue by the Group's Management Board on 25 April 2017.

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

A number of new standards, amendments to standards and interpretations have been published but were not yet effective for annual period ending on 31 December 2016 and have not been applied in the consolidated financial statements. The Group intends to apply them for the periods for which they are required to be applied for the first time.

Standards, amendments to standards and interpretations that have been endorsed by European Union but are not effective for the annual periods beginning as of 1 January 2016:

- IFRS 9 Financial Instruments (along with amendments): Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting (effective date: 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers: The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition. (effective date: 1 January 2018);

Standards, amendments to standards and interpretations that have not been endorsed by European Union:

- IFRS 14 Regulatory Deferral Accounts: Accounting and disclosure principles for regulatory deferral accounts. (effective date: 1 January 2016);
- IFRS 16 Leases: IFRS 16 eliminates the classification of leases as either operating lease or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease. (effective date 1 January 2019);
- Amendments to IFRS 2: Classification and valuation of share based payments (effecitive date 1 January 2018),
- Amendments to IFRS 4: Application of IFRS 9 „Financial instruments" and IFRS 4 „Insurance Constracts" (effective date 1 January 2018 or with the first time adoption of IFRS 9 "Financial instrumetns"),
- Amendments to IFRS 10 and IAS 28: Deals with the sale or contribution of assets between an investor and its joint venture or associate. (effective date: not specified);
- Amendments to IFRS 15: Explanations to IFRS 15 "Revenue from Contracts with Customers" (effective date 1 January 2018);
- Amendments to IAS 7: The initiative on changes to disclosures (effective date: 1 January 2017);
- Amendments to IAS 12: Clarification of the method of deferred tax asset settlement of unrealized losses. (effective date 1 January 2017);
- Amendments to IAS 40 : Changes comprise explanations to transfer to or from investment property (effective date 1 January 2018),
- Annual Improvements to IFRS - cycle 2014-2016

This cycle of improvements contains amendments to the following standards:

IFRS 1 – effective date 1 January 2018

IFRS 12 - effective date 1 January 2017

IFRS 28 – effective date 1 January 2018

- IFRIC 22:Foreign Currency Transactions and Advance Consideration" (effective date 1 January 2018)

According to the Group, abovementioned standards, interpretations and amendments to standards would not have a material impact on the consolidated financial statements, if they had been applied by the Group at the reporting date, with the exception of IFRS 9 "Financial Instruments", which could have a significant impact on the classification of financial assets and IFRS 16 "Leases" which may have a significant impact on the presentation of Group's statement of financial position due to the fact that the Group is a party to long term operating lease contracts which on transition will be presented as 'rights of use assets' and related lease liabilities.

The Group performed a preliminary analysis of its operating lease contracts and concluded, that in current circumstances (i.e. if the leases is in force as of 31 Dec 2016 would be recognised as liabilities and right of use assets), the Group would recognise additional right of use assets and lease liabilities of approximately EUR 32million (if the option to recognise assets equal to present value of liabilities would be applied). As a result the Group's profit or loss would be charged with an estimated amount of EUR 5million of depreciation (of the right of use assets) and EUR 2million of interest cost on lease liabilities. The actual 2016 expenses related to operating lease contracts amounted to EUR 9.8million. All those assessments might change in line with changes to lease contracts over the period from 31.12.2016 and 1.01.2019 – the effective date of the new Standard.

Upon initial application, i.e. 1 January 2018, the impact of the new IFRS 15 will depend on the specific facts and circumstances relating to contracts with customers, the Group will be party to. The Group performed a preliminary analysis of the impact of IFRS 15 on its revenue recognition principles. Due to the fact that 98,7% of Group's revenues are derived from sale of goods, the Group determined that their performance obligations would be fulfilled upon delivery or other transfer of significant risks of ownership – similar to the currently existing policies. Due to the fact that Group typically is not a party to any multiple delivery arrangements where contracted values would differ from fair values, the selling prices of each product are best estimates of fair values of each element in such transactions. Therefore the impact of IFRS 15 on Group's revenue recognition practices is expected to be minimal.

b) Basis of accounting

The 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.

c) Functional and presentation currency

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

Functional currency of the Company is 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 the Pfleiderer Group selected the EUR as the presentation currency for its consolidated financial statements.

d) Estimates and judgements

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

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

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 20 – Derecognition of trade receivables covered by factoring arrangements – based on analysis of risk and benefit transfer, control retention and degree of involvement.

Assumptions and estimation uncertainties

- Notes to the annual consolidated financial statements, Note 4, Section d (v), e (iv) – useful lives of property, plant and equipment and intangible assets – determined based on estimated useful lives of property, plant and equipment and intangible assets and verified at least annually,
- Notes 6, 13 – Goodwill, recoverable amount of non-financial non-current assets – if there is an impairment, the recoverable amount is determined as the higher of fair value less cost to sell or value in use (based on discounted cash flows),
- Note 17, 18 – Corporate income tax and government grants receivables – recognition of deferred tax assets; availability of future taxable profit against which carryforward tax losses can be used; availability of future taxable profit against which government grants receivables can be realized,
- Note 24 – Measurement of liabilities under defined employee benefit plans – employee benefits are evaluated by an actuary. The valuation is based on assumptions regarding interest rates, remuneration increase, inflation rate, and employment turnover,
- Notes 25, 29 – Provisions and contingent liabilities - recognition of provisions and contingent liabilities requires the estimation of the probable outflow of economic benefits and making the best estimate of expenditure required to settle the present obligation at the end of reporting period,
- Note 27 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 27 – financial instruments; and
- Note 31 – acquisition of subsidiary.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

(i) Business combinations

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

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

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

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

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

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

(ii) Subsidiaries

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

b) Foreign currencies

(i) Foreign currency transactions

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

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

(all amounts in EUR thousand)

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

Foreign exchange gains or losses resulting from settlements of transactions in foreign currencies and from the conversions of monetary assets and liabilities denominated in foreign currencies are recognized in profit/loss of the current period.

(ii) Foreign operations

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

(iii) Net investments in foreign operations

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

(iv) Exchange differences on translation to presentation currency

Exchange differences relating to translation of financial statements from function currency to presentation currency are recognised in other comprehensive income. The method of translation to a presentation currency is consistent with the translation of a foreign operation for consolidation purposes. Exchange differences arising from translation from fuctional to presentation currency are not transferred to profit or loss.

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

	31 Dec 2016	31 Dec 2015
PLN	4.4103	4.2639
USD	1.0541	1.0887
GBP	0.85618	0.73395
RUB	64.3000	80.6736
CHF	1.0739	1.0835

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

	31 Dec 2016	31 Dec 2015
PLN	4.3631	4.1827
USD	1.1066	1.1099
GBP	0.8189	0.7262
RUB	74.2308	68.0418
CHF	1.0900	1.0681

c) Financial instruments – classification and valuation

(i) Non-derivative financial instruments

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

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

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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

Loans and receivables

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

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

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

Cash and cash equivalents comprise cash in hand and demand deposits at banks.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other category of financial assets. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented in the revaluation reserve in equity. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Non-derivative financial liabilities

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

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

Cash-flow hedges

If a derivative financial instrument is designated as a cash flow hedge against a specific risk connected with a recognised asset, liability or a highly probable forecast transaction which could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as a separate hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

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

d) Property, plant and equipment

(i) Owned property, plant and equipment

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

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

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

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

(ii) Reclassification to investment property

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

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

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes, for a finance lease, that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group’s incremental borrowing rate.

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

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

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

(iv) Subsequent expenditure

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

(v) Depreciation

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

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

Buildings	14-40 years
Plant and equipment	2- 33 years
Vehicles	5-10 years
Other tangible assets	3-13 years

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

e) Intangible assets

(i) Goodwill

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

Goodwill is recognised on the date of obtaining control as:

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

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

(ii) Other intangible assets

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

Intangible assets for which, on acquisition, the Group is not capable of determining their useful lives are classified as having indefinite useful lives and thus are not amortised. The Group performes an annual assessment of the remaining useful lives of such assets and if those become finite – amortisation commences over the remaining useful lives. Intangible assets with indefinite useful lives are tested for impairment on an annual basis regardless of impairment indicators.

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation of intangible assets is calculated using the straight-line method over their estimated useful lives, unless their useful economic lives are indefinite and is generally recognised in profit or loss. Goodwill and intangible assets with indefinite useful life are not amortised and are subject to impairment testing at the end of each financial year or more frequently if events or circumstances indicate potential impairment. Other intangible assets are amortised from the date that they are available for use.

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

Licences	2-7 years
Computer software	2-7 years
Customer relationships	8 years
Entitlement to beneficial EEG remuneration	1-7 years
Order backlog	1 year

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

f) Investment property

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

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

g) Inventories

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

The cost of inventory is determined in the following manner:

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

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

h) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

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

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

All material financial assets are tested for impairment at each reporting date. Other financial assets are divided into groups with similar credit risk and assessed for impairment collectively.

Impairment losses are recognised in profit or loss and reflected in an allowance account.

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

(ii) Non-financial assets

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

The recoverable amount of an assets or cash-generating units (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

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

i) Equity

(i) Ordinary shares

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

(ii) Dividends

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

j) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

The Group is required to withhold and pay contributions for future pension benefits of its employees, under applicable regulations. The defined contribution plan relates to the government program financed with contributions paid by the Group and by an employee to a pension fund. In connection with the above, the Group's liabilities for each period are recognised based on the contributions payable in a given period.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long term employee benefits

In accordance with the remuneration system of the Group, employees of Pfleiderer Group S.A, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o., Jura Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Polska Sp.z o.o. are entitled to receive retirement benefits (one-off payment upon retirement).

The Group's retirement benefit obligations are determined by estimating the amount of future remuneration of the employee at the time of the employee's retirement, and by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount to present value.

The calculation of retirement benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The employee turnover is estimated based on historical data and projections concerning future employment levels.

All changes between the balance of employee benefit obligations as at the beginning and the end of a reporting period, other then benefits paid are recognised in other comprehensive income.

k) Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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

Carbon dioxide emission rights are not recognized in the statement of financial position when granted nor in thesubsequent periods. The fees for the issuing of rights are recognized as an expense in profit and loss in the period in which are incurred.

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

If at the reporting date, the Group does not have sufficient quantities of rights to fully cover the amount of the carbon dioxide emitted in a period, the Group raises a provision to cover the shortfall of rights.

l) Revenue

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

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

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

Revenue from provision of services includes mainly revenue from transportation services, which are recognised when a service is completed (i.e. the items are delivered to the recipient).

(ii) Government grants

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

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

The Group also derecognises the government grant assets (tax receivable by the amount of the government grant utilised in the reporting period), and reports the change in the asset within income tax expense (note 18).

m) Operating lease payments

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

n) Net finance income and costs

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

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

Foreign currency gains and losses are presented on a net basis as either finance income or finance costs or in other income if relate to operating foreign exchange differences.

o) Income tax

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

Deferred tax assets and liabilities are offset only if certain criteria are met. Deferred tax related to transactions recognised directly in equity is recognized in equity.

Deferred tax asset is not recognised for:

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

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

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

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

p) Earnings/(Loss) per share

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

q) Determination and presentation of operating segments

These consolidated financial statements disclose information on segments based on components of the Group which are monitored by the Chief Operating Decision Maker ("CODM") i.e. the Management Board of the Company.

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

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

Segment assets excludes cash, income taxes receivable and deferred tax assets. Segment liabilities exclude income taxes payable and deferred tax liabilities.

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

5 OPERATING SEGMENTS

The Pfleiderer 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 Group 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.

1 JAN – 31 DEC 2016				
'000 EURO	CORE WEST	CORE EAST	OTHERS / CONSOLIDATION	PFLEIDERER GROUP
External revenues	**620 929**	**308 659**	**-**	**929 588**
Intersegment revenues	**7 308**	**30 462**	**-37 770**	**-**
Profit/loss before income taxes	-4 960	18 972	-946	13 066
Financial result	-19 133	-5 184	0	-24 317
EBIT	**14 173**	**24 156**	**-946**	**37 383**
Depreciation and amortisation	54 751	16 534	75	71 360
Segment earnings EBITDA	**68 924**	**40 690**	**-871**	**108 743**
Cash and cash equivalents	-83 266	-14 095	-365	-97 726
Current financial liabilities	10 898	-	-	10 898
Non-current financial liabilities	329 762	-	-	329 762
Net debt	**257 394**	**-14 095**	**-365**	**242 934**
Receivables before factoring	53 046	44 220	-	97 266
Inventories	55 864	36 039	-	91 903
Trade payables	-48 262	-40 797	-	-89 059
NET WORKING CAPITAL BEFORE FACTORING	60 648	39 462	-	100 110
SEGMENT CAPITAL EXPENDITURE	24 937	28 426	-595	52 768
Property, plant and equipment	371 537	177 326	-	548.863
Intangible assets	82 482	609	-	83.091
Goodwill	29 732	36 439	-	66 171
Advances paid on fixed assets	2 843	173	-	3.016

1 JAN – 31 DEC 2015				
'000 EURO	CORE WEST	CORE EAST	OTHERS / CONSOLIDATION	PFLEIDERER GROUP
External revenues	**-**	**374 160**	**-**	**374 160**
Intersegment revenues	**-**	**-**	**-**	**-**
Profit/loss before income taxes	-	33 110	-	33 110
Financial result	-	-2 594	-	-2 594
EBIT	**-**	**35 704**	**-**	**35 704**
Depreciation and amortisation	-	15 395	--	15 395
Segment earnings EBITDA	**-**	**51 099**	**-**	**51 099**
Cash and cash equivalents	-	-20 720	-	-20 720
Current financial liabilities	-	5 089	-	5 089
Non-current financial liabilities	-	9 598	-	9 598
Net debt	**-**	**-6 033**	**-**	**-6 033**
Receivables before factoring	-	52 898	-	52 898

(all amounts in EUR thousand)

Inventories	-	36 635	-	36 635
Trade payables	-	-34 265	-	-34 265
NET WORKING CAPITAL BEFORE FACTORING	-	55 268	-	55 268
SEGMENT CAPITAL EXPENDITURE	-	26 879	-	26 879
Property, plant and equipment	-	163 803	-	163 803
Intangible assets	-	957	-	957
Goodwill	-	25 289	-	25 289
Advances paid on fixed assets	-	7 079	-	7 079

Geographic information

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

COUNTRY	1 JAN 2016 – 31 DEC 2016	1 JAN 2015 – 31 DEC 2015
Australia	2 064	-
Austria	16 398	469
Azerbaidjan	397	661
Belarus	811	1 374
Belgium	10 837	0
Bosnia-Herzegovina	823	258
Bulgaria	1 072	673
Croatia	1 379	-
Czech Republic	13 349	6 890
Denmark	6 572	1 813
Estonia	2 233	846
Finland	2 551	1 208
France	33 009	-
Germany	401 728	63 731
Great Britain	52 596	-
Hungary	4 341	2 162
Ireland	1 584	-
Italy	22 104	1 386
Japan	1 069	-
Kazakhstan	375	638
Latvia	4 140	3 708
Lithuania	16 265	12 922
Moldova	464	516
Netherlands	37 709	2 822
New Zealand	556	-
Norway	11 717	-
Poland	217 093	240 825
Portugal	567	-
Romania	3 681	3 772
Russia	6 804	8 039
San Marino	-	1 199
Serbia	749	646
Slovakia	6 480	3 349
Slovenia	3 149	-
South Africa	3 053	-

(all amounts in EUR thousand)

Spain	1 257	-
Sweden	17 723	9 267
Switzerland	18 642	1 497
U.S.A.	586	-
Ukraine	1 697	2 213
Others	1 964	1 276
TOTAL	929 588	374 160

Products and Services

SALES PRODUCTS	1 JAN 2016 – 31 DEC 2016	1 JAN 2015 – 31 DEC 2015
Chipboard	607 826	197 670
MDF/HDF	113 221	70 702
HPL/Elements	146 988	0
Glue	39 777	72 716
Other products	9 374	20 341
Sale of products	**917 186**	**361 429**
Electricity	31 603	-
Merchandise, materials, services	4 219	12 731
Other (sales deductions)	-23 420	
Others incl. sales deductions	**12 402**	**12 731**
TOTAL	929 588	374 160

Information about major customers

In 2016 and 2015 no leading customers were identified in the Group, for which turnover would exceeded 10% of Group’s total revenue.

6 Goodwill

The following table presents Group goodwill after acquisition of Core West operations:

	31 DEC 2016	31 DEC 2015
Core West	29 732	-
Core East	36 439	25 289
TOTAL	**66 171**	25 289

Impairment test of cash generating unit containing goodwill

The Company’s Management Board estimated the recoverable amount of goodwill as at the end of 2016.

For the purposes of impairment testing goodwill is allocated to groups of CGUs representing operating segments before aggregation. Additionally as a result of past acquisitions certain element of goodwill (EUR 24 511 thousand) are allocated to a single cash generating unit Pfleiderer Prospan S.A. being part of the Core East segment.

In 2016, as a result of an aqusition, the Group recognised additional goodwill amounting to EUR 41.5 mio that was allocated to the group of CGU, which are Core West (West Europe) (72%) and Core East (East Europe) (28%).

Recoverable amounts of the segments were determined based on a calculation of their fair values. The calculations were performed based on cash flow projections adopted in the five-year budgets approved by the Management

Board. The fair value less costs to sell was determined using the net present value approach with an assumed level of costs to sell (1% for West Europe and 2% for East Europe operations).

The values assigned to the key assumptions represent Management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The discount rate was applied to reflect the risks specific to a given cash generating unit. A rate of return on 10-year treasury bonds was assumed as the risk-free rates. Separate risk free rates were adopted for East Europe and West Europe segments. The main assumptions used to calculate the segments' fair values were as follows:

Segment West Europe

- terminal growth rate beyond the five-year period covered by the budget – 1%;
- risk free rate – 0.99%;
- market risk premium – 7.01%
- discount rate – 7.45%.

Segment East Europe

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- risk free rate – 1,8%
- market risk premium – 7%
- discount rate – 8.29%.

For both Segments the key assumptions included the level of revenues and operating expenses in each forecasted period. Those assumptions were based on a formalised process of budgeting and financial planning within the Group. The forecast level of sales was assumed to follow market trends as expected by the Group management which is supported by their views of industry analyses and market research. The level of expenses was based on historical experience and expected trends in market prices of raw materials used by the Group.

The fair value calculated using the methodology adopted by the company for both segments is a Level 3 fair value measurement.

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

Recoverable amount of the Pfleiderer Prospan SA CGU (PP) was determined based on the calculation of fair value less costs to sell. The calculations were performed based on cash flow projections adopted in the five-year budgets approved by the Management Board. The values assigned to the key assumptions represent Management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The main assumptions used to calculate the unit's fair value were as follows:

- terminal growth rate – 2%
- risk free rate – 1.8%
- market risk premium – 7%
- discount rate – 8.25%

The key assumptions used in the test included the level of revenues and operating expenses in each forecasted period. Those assumptions were based on a formalised process of budgeting and financial planning within the PP plant. The forecast level of sales was assumed to follow market trends as expected by the PP management which is supported by their views of industry analyses and market research. The level of expenses was based on historical experience and expected trends in market prices of raw materials used by PP.

(all amounts in EUR thousand)

The fair value calculated using the methodology adopted by the company is a Level 3 fair value measurement.

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

7 Other operating income

	1 JAN 2016 – 31 DEC 2016	1 JAN 2015 – 31 DEC 2015
Profit on sale of property, plant and equipment	-	37
Reversal of impairment loss on receivables	-	603
Compensation and penalties received	1 509	352
Rental income	190	-
Release of unused accruals and deferred income	76	335
Other, including:	7 130	4 848
Government grants and public assistance	*1 402*	*1 074*
Sales of excessCO2 emission rights	*1 007*	*2 417*
Operating foreign exchanges gains	*779*	*1 160*
Operational management (sewage plant Baruth)	*738*	-
Cost transfer	*674*	-
Bonuses	*555*	-
Indemnity	*529*	-
Refund for electricity tax	*220*	-
Proceeds from the sale of scrap	*172*	-
Sale of diesel	*143*	-
Other income	*911*	*197*
TOTAL	8 905	6 175

8 Other operating cost

	1 JAN 2016 – 31 DEC 2016	1 JAN 2015 – 31 DEC 2015
Loss on disposal of property, plant and equipment	181	49
Losses and allowance for receivables	903	172
Loss on foreign exchange differences	225	-
Damages paid	-	216
Other - including:	27 327	2 091
Recognition of accruals	-	*88*
Antitrust provisions costs and related costs	*6 805*	
Consulting	*3 657*	-
Severence payments (restructuring costs)	*7 108*	-
Bond	*1 257*	-
Costs related to restructuring of the Group	*1 475*	*1 699*
Property damage	*499*	-
Other expenses	*6 526*	*304*
TOTAL	28 636	2 528

(all amounts in EUR thousand)

9 Employee benefits cost

	1 JAN 2016 – 31 DEC 2016	1 JAN 2015 – 31 DEC 2015
Personnel	160 249	28 817
Temporary Staff	3 069	1 518
EMPLOYEE BENEFIT EXPENSE	163 318	30 335

10 Finance income and costs

Disclosed in profit or loss of the period:

	1 JAN 2016 – 31 DEC 2016	1 JAN 2015 – 31 DEC 2015
Interest income	3 443	238
Net foreign exchange gains (non-operating)	1 664	30
Gains on forward contracts	-	94
Other financial income	289	160
Finance income	**5 396**	**522**
Interest expense	-29 423	-2 610
Revaluation of investments	-	-421
Other finance costs	-290	-85
Finance costs	**-29 713**	**-3 116**
NET FINANCE COSTS	-24 317	-2 594

The increase of the interest expenses derives from the consolidation of the West Europe companies in the Group in 2016.

11 Expenses by nature

	1 JAN 2016– 31 DEC 16	1 JAN 2015– 31 DEC 15
Raw materials and consumables used	511 980	253 914
Depreciation and amortisation	71 360	15 395
Services	101 625	30 960
Taxes and charges	5 152	4 069
Employee benefit expense	163 318	30 335
Other costs	22 693	4 024
TOTAL COSTS	876 128	338 697
Change in inventories of finished goods and accruals and deferrals	-3 543	4 104
Work performed by entity and capitalised	-111	-698
TOTAL OPERATING EXPENSES	872 474	342 103
including:		
Distribution expenses	111 449	27 865
General and administrative expenses	49 498	15 068
COST OF SALES	711 527	299 170

(all amounts in EUR thousand)

12 Income tax expense

	NOTE	1 JAN 2016– 31 DEC 2016	1 JAN 2015– 31 DEC 2015
Income tax expense			
Current portion of income tax		-13 185	-7 923
Claimed tax refunds for previous years		4 020	-
Tax exemption under government grants		-	1 471
		-9 165	-6 452
DEFERRED INCOME TAX			
Relating to origination and reversal of temporary differences		10 847	137
Use of tax loss carryforward asset		-	15
	17	10 847	152
TAX EXPENSE RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT AND LOSS		1 682	-6 300

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

		1 JAN 2016– 31 DEC 2016		1 JAN 2015– 31 DEC 2015
Profit before tax		**13 066**		**33 110**
Tax at domestic rate	19.00%	-2 483	19.00%	-6 291
Effect of foreign tax rates	11,86%	1 549	0.62%	207
Recognition of deferred tax assets/deferred tax liability previously unrecognized	0.96%	-125	0.12%	40
Non-tax-deductible expenses – permanent differences	10.80%	-1 411	-0.77%	-256
Claimed taxes refund for previous year	-30.77%	4 020	0.00%	0
Deferred taxes for previous years	-2.24%	293	0.00%	0
Other	1.23%	-161	0.00%	0
Effect on income tax	**31.81%**	**4 165**	**-0.03%**	**-9**
Income tax at effective tax rate	-12.87%	1 682	19.03%	-6 300
INCOME TAX DISCLOSED IN THE CONSOLIDATED INCOME STATEMENT		1 682		-6 300

(all amounts in EUR thousand)

13 Property, plant and equipment

GROSS VALUE	LAND BUILDINGS	PLANT AND EQUIPMENT	OTHER	TANGIBLE ASSETS UNDER CONSTRUCTION	TOTAL
1 Jan 2015	85 306	227 004	8 780	6 062	327 152
Increases	-	-	-	20 501	20 501
Disposals	-64	-5 236	-1 144	-	-6 444
Transfers	2 651	13 764	859	-17 986	-712
Reclassification of property, plant and equipment	-	-127	-	-	-127
Currency translation adjustment	137	335	25	-34	463
31 DEC 2015	88 030	235 740	8 520	8 543	340 833
1 JAN 2016	88 030	235 740	8 520	8 543	340 833
Acquisition of subsidiaries	143 722	239 608	3 975	5 738	393 043
Increases	852	6 217	1 219	48 113	56 401
Disposals	-	-5 460	-99	-	-5 559
Transfers	2 149	26 527	391	-29 137	-70
Currency translation adjustment	-3 150	-8 899	-357	- 289	-12 695
31 DEC 2016	231 603	493 733	13 649	32 968	771 953

(all amounts in EUR thousand)

ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES	LAND BUILDINGS	PLANT AND EQUIPMENT	OTHER	TANGIBLE ASSETS UNDER CONSTRUCTION	TOTAL
1 Jan 2015	35 218	127 203	5 829	-	168 250
Depreciation	2 486	11 618	919	-	15 023
Disposals	-54	-5 135	-1 130	-	-6 319
Reclassification	-	-127	-	-	-127
Currency translation adjustment	30	156	17	-	203
31 DEC 2015	37 680	133 715	5 635	-	177 030
1 Jan 2016	37 680	133 715	5 635	-	177 030
Depreciation	10 994	45 524	2 212	-	58 730
Disposals	-	-5 162	-100	-	-5 262
Currency translation adjustment	-1.472	-5 755	-181	-	-7 408
31 DEC 2016	47 202	168 322	7 566	-	223 090
NET VALUE					
31 DEC 2015	50 350	102 025	2 885	8 543	163 803
31 DEC 2016	184 401	325 411	6 083	32 968	548 863

Leased plant and equipment

As at 31 December 2016 and 31 December 2015, the Group held no property, plant and equipment under finance lease agreements.

Property, plant and equipment under construction
Investment projects

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 year ended 31 December 2016 were EUR 52 768 thousand (including advance payments) and EUR 27 290 thousand for 2015.

As at 31 December 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	DEC. 31, 2016	DEC. 31, 2015
Property, plant and equipment	8 761	8 472
Intangible assets	27	2
COMMITMENT TO PURCHASE	8 788	8 474

Impairment of non-financial non-current assets

In 2016 Management did not identify any impairment indicators for its cash generating units on a plant level with one exception. Due to a risk of significant reduction in sales volume to a significant client, management identified impairment indicators for Pfleiderer MDF Sp. z o.o. in 2016 and therefore performed an impairment test.

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

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

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- discount rate – 8,59%.

The values assigned to the key assumptions represent Management’s assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The discount rate was a pre-tax measure estimated based on the weighted average cost of capital, with a possible debt leveraging (22%) at a market interests rate of 6,14%. The projected cash flows were derived from the budgets for the years until 2021 approved by the Management Board.

The test did not identify any impairment of non-current assets as at the end of 2016.

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

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

- decrease of EBITDA per year by 27%;
- increase of working capital by PLN 1 800 thousand per year;
- discount rate increase by 2.8. p.p.

(all amounts in EUR thousand)

14 Intangible assets

GROSS VALUE	LICENCES, COMPUTER SOFTWARE AND OTHER	BRAND NAME	CUSTOMER RELATIONSHIPS	ENTITLEMENT TO BENEFICIAL EEG REMUNERATION	ORDER BACKLOG	TOTAL
1 Jan 2015	**6 162**	**-**	**-**	**-**	**-**	**6 162**
Transfers	712	-	-	-	-	712
Currency translation adjustment	-1	-	-	-	-	-1
31 DEC 2015	6 873	-	-	-	-	6.873
1 Jan 2016	**6 873**	**-**	**-**	**-**	**-**	**6.873**
Acquisition of subsidiaries	5 026	19 498	53 441	16 443	1 712	96 120
Currency translation adjustment	-105	-	-	-	-	-105
Increases	326	-	-	-	-	326
Decreases	-148	-	-	-	-	-148
Reclassifications	70	-	-	-	-	70
31 DEC 2016	12 042	19 498	53 441	16 443	1 712	103 136
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES						
1 Jan 2015	**5 538**	**-**	**-**	**-**	**-**	**5 538**
Amortisation	373	-	-	-	-	373
Currency translation adjustment	5	-	-	-	-	5
31 DEC 2015	5 916	-	-	-	-	5 916
1 Jan 2016	**5 916**	**-**	**-**	**-**	**-**	**5 916**
Amortisation	1 642	-	6 680	4 308	1 712	14 342
Decreases	-148	-	-	-	-	-148
Currency translation adjustment	-65	-	-	-	-	-65
31 DEC 2016	7 345	-	6 680	4 308	1 712	20 045
NET VALUE						
31 DEC 2015	957	-	-	-	-	957
31 DEC 2016	4 697	19 498	46 761	12 135	-	83 091

The Group consideres the brand name acquired in the acquisition on 19 January 2016 as having an indefinite useful life. The acquired brand name is the principle branding of the Group's organization and products. As such its useful life is linked to the operations of the Group as a whole. The Group therefore expects the economic benefits of this brand to be generated over a long period of time and currently the determination of its useful life is not relevant.

Individually significant intangible assets and their remaining useful lives as at 31 December 2016:

	Gross book value as of 31 Dec 2016	**Remaining useful life (years)**
Customer relationships Handel	37 727	7
Customer relationships Industrie	15 714	7
Beneficial EEG remuneration Baruth	8 841	6
Beneficial EEG remuneration Guetersloh	5 698	4

The amortization of intangible assets in the amount of EUR 12 630 thousand is included in 'cost of sales' (in the total amount of depreciation and amortization of EUR 71 360 thousand) in the Group Statement of Profit and Loss and Other Comprehensive Income, except for the amount of order backlog amortization (EUR 1 712 thousand) which is presented as other costs in the Group Statements of Profit and Loss and Other Comprehensive Income.

15 Other short term financial assets

'000 EUR	DEC. 31, 2016	DEC. 31, 2015
Loans granted:		
Long-term portion of loans	-	-
Current portion of loans	-	767
TOTAL	-	767

As at 31 December 2016 the Group received repayment of a loan granted to 3 Spare Sp. z o.o in the amount of EUR 767 thousand.

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

16 Investment property

As at 31 December 2016, the Group recognised investment property in the amount of EUR 875 thousand (PLN 3 860 thousand, 31 December 2015: EUR 905 thousand PLN 3 860 thousand).

Investment property comprises of land held in perpetual usufruct, located at Bolesławiecka Street in Wieruszów, with a total area of 2.7835 ha, which as at the end of 2016 was not used for production purposes, sale of goods, rendering of services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

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

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

As at 31 December 2016, according to the valuer's opinion, market and economic conditions have not changed significantly in comparison to the valuation performed as at 31 December 2015. Therefore, the fair value of investment property determined by external valuers remained at the same level and amounted to EUR 875 thousand, which equals to PLN 3,860 thousand (categorised as a Level 2 fair value).

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

(all amounts in EUR thousand)

17 Deferred income tax asset and liability

	ASSETS 31 DEC 2016	LIABILITIES 31 DEC 2016	NET 31 DEC 2016	ASSETS 31 DEC 2015	LIABILITIES 31 DEC 2015	NET 31 DEC 2015
Non-current assets						
Property, plant and equipment	7 159	54 880	-47 721	4 918	5 658	-740
Intangible assets	54	24 446	-24 392	-	-	-
Investment property	-	-	-	-	120	-120
Securities	-	1	-1	-	-	-
Loans advanced	-	-	-	-	2	-2
Other assets	-	-	-	-	-	-
Other non-current financial assets	17	-	17	1	-	1
Current assets						
Inventories	373	22	351	337	-	337
Other current financial assets	-	-	-	-	20	-20
Trade and other receivables	2 543	1 096	1 447	231	66	165
Cash and cash equivalents	-	1	-1	3	3	-
Non-current liabilities						
Provisions	345	74	271	38	-	38
Employee benefit obligations	622	-	622	431	-	431
Financial debts	2 357	-	2 357	-	-	-
Other liabilities	6	-	6	-	-	-
Pension provisions	7 905	-	7 905	-	-	-
Current liabilities						
Trade and other payables	1 524	635	889	406	17	389
Employee benefit obligations	-	-	-	528	-	528
Other liabilities	58	36	22	-	-	-
Total tax loss brought forward	-	-	-	14	-	14
Deferred income tax asset/liability	22 963	81 191	-58 228	6 907	5 886	1 021
Deferred income tax asset and liability offset	-17 015	-17 015		-2 137	-2 137	
DEFERRED INCOME TAX ASSET/LIABILITY	5 948	64 176		4 770	3749	

(all amounts in EUR thousand)

Changes related to temporary differences during the reporting period:

	1 JAN 2016	RECOGNISED IN PROFIT OR LOSS	RECOGNISED in OCI	Arising from business combinations	CURRENCY TRANSLATION ADJUSTMENT	31 DEC 2016
Non-current assets						
Property, plant and equipment	-740	12 036	-	-58 359	-658	-47 721
Intangible assets	-	2 671	-	-29 383	2 320	-24 392
Investment property	-120	120	-	-	-	-
Securities	-	-1	-	-	-	-1
Loans advanced	-2	2	-	-	-	-
Other assets	-	1	-	85	-86	-
Other non-current financial assets	1	15	-	1	-	17
Current assets						
Inventories	337	378	-	-364	-	351
Other current financial assets	-20	20	-	-	-	-
Trade and other receivables	165	- 3 587	-	4 869	-	1 447
Cash and cash equivalents	-	-1	-	-	-	-1
Non-current liabilities						
Provisions	38	-543	-	776	-	271
Employee benefit obligations	431	191	-	-	-	622
Financial debts	-	-5 717	-	8 074	-	2 357
Other liabilities	-	4 541	-	-4 535	-	6
Pension provisions	-	643	651	6 611	-	7 905
Current liabilities						
Trade and other payables	389	500	-	-		889
Provisions	-	98	-	-	-98	-
Employee benefit obligations	528	-528	-	-		-
Other liabilities	-	22	-	-		22
Total tax loss brought forward	14	-14	-	-		-
	1 021	10 847	651	-72 225	1 478	-58 228

CHANGE IN TEMPORARY DIFFERENCES RECOGNISED AS PROFIT OR LOSS FOR PERIOD	10 847

(all amounts in EUR thousand)

	1 JAN 2015	RECOGNISED IN PROFIT OR LOSS	RECOGNISED in OCI	Aquired in business combinations	CURRENCY TRANSLATION ADJUSTMENT	31 DEC 2015
Non-current assets						
Property, plant and equipment	-224	-526	-	-	10	-740
Intangible assets	-	-	-	-	-	-
Investment property	-120	-	-	-	-	-120
Securities	-	-	-	-	-	-
Loans advanced	-2	-	-	-	-	-2
Other assets	-	-	-	-	-	-
Other non-current financial assets	1	-	-	-	-	1
Current assets						
Inventories	394	-59	-	-	2	337
Other current financial assets	-37	17	-	-	-	-20
Trade and other receivables	-668	850	-	-	-17	165
Cash and cash equivalents	20	-20	-	-	-	-
Investments in related entities	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Non-current liabilities						
Provisions	36	2	-	-	-	38
Employee benefit obligations	443	-13	-	-	1	431
Financial debts	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Pension provisions	-	-	-	-	-	-
Current liabilities	-	-			-	-
Trade and other payables	467	-79	-	-	1	389
Provisions	-	-	-	-	-	-
Employee benefit obligations	560	-34	-	-	2	528
Other liabilities	-	-	-	-	-	-
Total tax loss brought forward	-	14	-	-	-	14
	870	152	-	-	-1	1 021
CHANGE IN TEMPORARY DIFFERENCES RECOGNISED AS PROFIT OR LOSS FOR PERIOD		152				

18 Government grants receivable and deferred income under government grants

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

1) Pursuant to a project co-financing agreement concluded between Pfleiderer MDF Sp. z o.o. (a Group company) and the Polish Minister of the Economy on 30 October 2006, the subsidiary of the Group received EUR 6 017 thousand as an investment grant for the construction of the MDF plant with a biomass-fired boiler house.

   The grant consisted of EUR 5 795 thousand to cover capital expenditures and EUR 222 thousand to cover two-years of labour costs following the creation of 55 new jobs. The total amount was received by the Group in 2007 and recognised as deferred income. The amount of EUR 5 795 thousand is amortised to other income over the useful life of property, plant and equipment to which the grant relates.

   The amount of EUR 222 thousand was amortised to other income over a period of two years starting from 1 January 2007.

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

   The permit was granted until 1 September 2016, following the fulfilment of certain conditions.

   The Polish Minister of the Economy, in the decision dated 7 November 2014, deemed Pfleiderer MDF Sp. z o.o.'s permit to conduct business activities in SSEZ valid until the date on which the SSEZ is to be discontinued (currently 31 December 2026). The permit's conditions include the requirement to incur capital expenditures of at least EUR 78 million by 31 December 2009, to hire at least 120 employees by 1 January 2010, to maintain the employment level until 31 December 2014, and to satisfy other requirements imposed by the laws governing the SSEZ. As at the end of 2015 and 2016 the company met all the significant requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditures of up to EUR 50 million, 50% of half of the amount of expenditures in excess of EUR 50 million and up to EUR 100 million, and 34% of half of the amount of expenditure in excess of EUR 100 million.

   The Group recognised a government grant assets and corresponding deferred income (current and non-current) with respect to the arrangement. The Group realised its government grant assets through the amount of the corporate income tax relief obtained through the exemption.

   The value of the government grant realised in 2016 amounted to EUR 1 402 thousand. As of 31 December 2016 in relation to the updated budget of Pfleiderer MDF Sp. z o.o., the Group reassesed government grant asset to the amount of EUR 18 440 thousand.

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

   The table below presents the structure of the deferred income with espect to government grants and the amounts released to other income in 2016 and 2015.

(all amounts in EUR thousand)

TYPE OF PUBLIC ASSISTANCE	INVESTMENT GRANT	CORPORATE INCOME TAX EXEMPTION	TOTAL
1 Jan 2015	3 436	18 056	21 492
Amortization	-196	-878	-1 074
Reassessment of government grants	-	7 627	7 627
Currency translation adjustment	11	-89	-78
31 DEC 2015	3 251	24 716	27 967
1 Jan 2016	3 251	24 716	27 967
Amortization	-194	-1.208	-1 402
Reassessment of government grants	-	-7.290	-7 290
Currency translation adjustment	-106	-729	-835
31 DEC 2016	2 951	15 489	18 440
Non-current portion	2 765	14 674	17 439
Current portion	186	815	1 001
TOTAL	2 951	15 489	18 440

As at 31 December 2016, the Group performed an analysis and reassessment of the amount of government grants. Following the analysis, the Group revised the carrying amount of government grants in the form of a corporate income tax exemption. In 2016 the amount of the government grant assets and liabilities decreased by EUR 7 290 thousand. The amount of the government grant receivable of EUR 13 563 thousand represents the estimated corporate income tax relief based on the exemption for the future periods of the Group's operations in the SSEZ. The amount was estimated based on the updated budget projections approved by the Management Board in each year. Management Board adopted budget assumptions, which are a basis for the estimation of the government grants amount based on historical results and expectations as to market developments. The growth rate does not exceed the long-term average rate for the manufacturing sector in Poland. The estimated amount of government grants is not discounted.

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

GOVERNMENT GRANT RECEIVABLE	
1 JAN 2015	16 226
Realisation	-1 471
Reassesment of goverment grants	7 627
Currency translation adjustment	-83
31 DEC 2015	22 299
1 JAN 2016	22 299
Realisation	-793
Reassesment of goverment grants	-7 290
Currency translation adjustment	-653
31 DEC 2016	13 563
Non-current portion	12 921
Current portion	642
TOTAL	13 563

(all amounts in EUR thousand)

19 Inventories

	31 DEC 2016	31 DEC 2015
Materials and merchandise	52 678	23 114
Semi-finished products and work in progress	866	77
Finished goods	38 213	13 402
Advances for deliveries	146	42
TOTAL	91 903	36 635

Inventories are presented in the consolidated statement of financial position at net realisable value, i.e. net of write-downs of EUR 9 791 thousand (31 December 2015: EUR 1 785 thousand).

20 Trade and other receivables

	31 DEC 2016	31 DEC 2015
Trade receivables	18 370	9 698
Trade receivables from related parties	8	9 795
Current prepayments and accrued income	1 652	1 813
Current prepayments for financing costs	-	1 801
Current VAT receivables	2 857	4 553
Receivables related to capital increase	-	84 863
Other receivables	19 644	561
TOTAL	42 531	113 084

The amount of EUR 19 644 thousand of other receivables as at 31 December 2016 included, among others:

- EUR 10 079 thousand relates to factoring continuing involvement and represents the risk reserve of the factor;
- EUR 3 409 thousand in a bank account with restricted access for distribution to secured creditors of the insolvency proceedings (Core West);
- EUR 2 562 thousand receivables related to energy regulations refund;
- EUR 1 518 thousand for payments for trust agreements within the semi-retirement obligations.

Other receivables, in the amount of EUR 561 thousand as at 31 December 2015 included, among others, loans granted from Special Funds.

As at 31 December 2016, trade receivables were reduced by impairment allowance of EUR 1 940 thousand (31 December 2015: EUR 1 698 thousand).

Trade and other receivables include the following financial receivables:

	NOTE	31 DEC 16	31 DEC 15
Trade receivables		18 370	9 698
Trade receivables from related parties		8	9 795
Receivables related to capital increase		-	84 863
Prepayments for financing costs		-	1 801
Other receivables		15 006	-
TOTAL	27	33 384	106 157

(all amounts in EUR thousand)

Factoring of receivables

As of December 31, 2016, the trade receivables sold as part of a West Europe ABCP (asset-backed commercial papers) transaction were derecognized, with the exception of certain purchase price reductions retained to minimize risk for the buyer of the receivables. The factoring program of East Europe takes place under a "non-recourse factoring" agreement in terms of which, with the exception of the deductible, the receivables sold were derecognized as of 31 December 2016.

East Europe (Core East)

For Core East the factoring agreements with BZ WBK Faktor Sp. z o.o. are concluded for an indefinite period, while the term of the agreements with PEKAO Factoring Sp. z o.o. is definite. Agreements are automatically rolled by another 12 months if neither party notifies the other party of its intention not to extend agreement, provided that such notice will be sent no later than 2 months before the expiry of a given agreement.

As at 31 December 2016, the terms of and credit limits under the agreements were as follows:

FACTOREE:	EXPIRY DATE:	FACTOR:	LIMIT:
Pfleiderer Polska Sp. z o.o.	31 March 2018	PEKAO Faktoring Sp. z o.o.	PLN 150,000*) thousand
Pfleiderer MDF Sp. z o.o.	28 February 2017	PEKAO Faktoring Sp. z o.o.	PLN 50,000*) thousand
Pfleiderer Prospan S.A. and Pfleiderer Polska Sp. z o.o.	indefinite term	BZ WBK Faktor Sp. z o.o.	PLN 100,000 thousand
Pfleiderer Silekol Sp. z o.o.	indefinite term	BZ WBK Faktor Sp. z o.o.	PLN 15,000 thousand

*) In the agreement between Pfleiderer Polska Sp. z o.o. and PEKAO Faktoring Sp. z o.o. the limit of PLN 150,000,000 is consumed by utilisation of the limit in terms of the agreement between Pfleiderer MDF Sp. z o.o. and PEKAO Faktoring Sp. z o.o.

On 31 August 2016 the agreement between Pfleiderer Group SA and PEKAO Faktoring Sp. z o.o. was transferred to Pfleiderer Grajewo Sp. z o.o. and on 29 December2016 to Pfleiderer Polska Sp. z o.o. The limit of this agreement was increased from PLN 100 000 thousand (EUR 22 674 thousand) to PLN 150 000 thousand (EUR 34 011 thousand) however it is consumed by utilisation of the limit within the agreement between Pfleiderer MDF Sp. z o.o. and PEKAO Faktoring Sp. z o.o.. Asresult the total limit with PEKAO Faktoring Sp. z o.o. is unchanged and amounts to PLN 150 000 thousand (EUR 34 011 thousand). In December 2016 Pfleiderer MDF Sp. z o.o. notified PEKAO Faktoring Sp. z o.o. about its intention not to continue the agreement. As the result this agreement was in force until 28 February 2017 when it expired.

On 29 December 2016 Pfleiderer Polska Sp. z o.o., as the second factoree, accessed the agreement between Pfleiderer Prospan S.A. and BZ WBK Faktor Sp. z o.o.

With effect from 29 December 2016 Pfleiderer Polska Sp. z o.o. has 2 factoring counterparties (PEKAO Faktoring and BZ WBK Faktor Sp. z o.o.) who finance 2 different groups of its customers.

Securitization Program (Core West)

Certain companies of the Pfleiderer Deutschland GmbH Group (formerly Pfleiderer Holzwerkstoffe GmbH), Pfleiderer Arnsberg GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Heller Holz GmbH, JURA-Spedition GmbH and Pfleiderer Gütersloh GmbH are party to a securitization program arranged by Commerzbank Aktiengesellschaft through Silver Tower asset-backed commercial paper and medium-term note programmes. The participation is, interalia, based on a receivables purchase and servicing agreement and substitute servicing agreements, all initially dated 15 October 2012. Under the receivables purchase agreement, trade receivables are sold by the relevant companies of the Group as sellers and servicers to a third party purchasing company. The purchase of receivables is made without recourse to the respective sellers. The sellers are obligated (jointly and severally) to indemnify the purchaser for any damages suffered as a result of breach of representations, warranties and covenants. The sellers are obliged to disclose the assignments of the receivables to the relevant customers and such customers must pay directly to the bank accounts of the securitization program's special purpose vehicle. Subject to certain servicing termination events, the respective sellers will continue to service the sold receivables. The sellers are obligated to pay to the purchaser certain fees as set forth under a programme fee letter, in particular an administration fee of 0.30% annually calculated on the aggregate amount of purchase prices for all receivables with a minimum fee of EUR 150 000 per annum, to reimburse refinancing costs and pay fees with respect to exchange of pound sterling amounts (in which certain of the receivables are denominated) to euro.

(all amounts in EUR thousand)

The securitization program provides for financing volume of up to EUR 60.0 million in Core West for sold eligible receivables. As of 31 December 2016, under the securitization program in Core West, accounts receivables in the amount of EUR 35.5 million had been sold.

Group

Under the factoring agreements, the factor finances 100% of the receivables' nominal value, while the cost of financing WIBOR (EURIBOR) + margin is paid by the Group. If debtors fail to pay their liabilities, the factor is entitled to claim towards the insurer under the insurance agreement with respect to 95% of the receivables value (90% in 2015), and the remaining 5% of the receivables is covered by the Group (10% in 2015 for Pfleiderer Group). Due to the fact that the Group retains exposure equal on average to 5% (10% in 2015) of the receivables sold to the factor according to factoring agreements, that part of the receivables and the related liabilities continue to be recognised in the Group's financial statements. The remaining amount of the receivables (95% in 2016 and 90% in 2015) was derecognized from the Group's statement of financial position.

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

	31 DEC 2016	31 DEC 2015
Total trade receivables before derecognition of sold receivables	87 187	52 898
Receivables derecognised from the statement of financial position	-68 809	-33 405
TRADE RECEIVABLES	18 378	19 493

	31 DEC 2016	31 DEC 2015
Factored receivables as at the end of the reporting period	73 162	37 117
Derecognised receivables	-68 809	-33 405
RECEIVABLES RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION UP TO THE AMOUNT OF CONTINUOUS INVOLVEMENT	4 353	3 712

SETTLEMENT OF FACTORING SERVICES	31 DEC 2016	31 DEC 2015
Factored receivables as at the end of the reporting period	73 162	37 117
Payments made by customers, not passed to the factor	28 440	10 437
Other settlements with the factor – cash in transit	-	-26
Payments received concerning receivables derecognised from the statement of financial position	-68 809	-33 405
FACTORING LIABILITIES AS AT THE END OF THE REPORTING PERIOD	32 793	14 123

21 Equity

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

	31 DEC 2016	31 DEC 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
	31 DEC 2016	31 DEC 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 Company are ordinary shares. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares 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 19 January 2016.

a. Share capital

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

As at 31 December 2016 the share capital consisted of 64 701 007 thousand ordinary shares with a nominal value of PLN 0.33 per share. As at 31 December 2016 all shares were paid up.

Share issuance

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

Shareholding structure As at December 31, 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	29.61%	19 153 614	29.61%
Total	64 701 007	100.00%	64 701 007	100.00%

*according to the latest available information

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

b. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs. For the financial year ended 31 December 2016 share premium increased by EUR 78 125 thousand due to issue of shares as of 19 January 2016.

c. Statutory reserve funds

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

In 2016, the Group transferred EUR 993 thousand from its 2015 net profit to statutory reserve funds.

d. Nature and purposes of reserves

(i) Revaluation reserve

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

Until 22 November 2010, the land was classified as agriculture land, and its fair value was estimated by an independent valuer at EUR 271 thousand. The land was initially recognized in the statement of financial position in the amount of EUR 126 thousand (PLN 540 thousand). The surplus between the book value and the fair value of land in the amount of EUR 145 thousand was recognised in the revaluation reserve.

(ii) Translation reserve

The translation reserve (Exchange Rate Differences reserve) comprises all foreign currency differences arising from the translation of the Core East financial statements from functional currency to presentation currency.

(iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

e. Dividends

The Ordinary General Meeting of the Company adopted a resolution concerning distribution of net profit of the Parent for the period of January 1, 2015 to December 31, 2015, providing for a dividend payment to 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:

- dividend date – the date used to prepare the list of shareholders eligible to receive the dividend – 15 July 2016
- dividend payment date 29 July 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.

(all amounts in EUR thousand)

22 Earnings per share

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

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

Net profit of the owners of the Company attributable to ordinary shares for the financial year ended 31 December 2016 amounted to EUR 14 748 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2015 was EUR 26 810 thousand.

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

WEIGHTED AVERAGE SHARES NUMER	DAYS	31 DEC 2016	31 DEC 2015
19 January 2016 (equity increase)	19	49 624 000	49 624 000
31 December 2016	347	64 701 007	49 624 000
	366	63 918 321	49 624 000

	1 JAN – 31 DEC 2016	1 JAN – 31 DEC 2015
Basic and diluted earnings per share	0.23	0.53

23 Borrowings and other debt instruments

	31 DEC 2016	31 DEC 2015
Non-current liabilities		
Non-current portion of interest-bearing notes	329 762	-
Bank borrowings	-	9 598
TOTAL	329 762	9 598
Current liabilities		
Current portion of interest-bearing bonds	10 555	5 089
Other interest bearing liabilities	343	-
TOTAL	10 898	5 089

On 27 June 2014, PCF GmbH issued 7.875% Senior Secured Notes due 2019 with a face value of EUR 321 684 thousand. When determining fair values during purchase price allocation for the Pfleiderer Group acquisition, the notes were marked-to-market on the transaction date, 19 January 2016 (EUR 332 943 thousand). The premium to fair value has been amounted since then over the term of notes in accordance with the effective interest rate method (EUR 3 181 thousand)). The notes have a carrying value of EUR 329 762 thousand as of 31 December 2016. The short term portion of interest bearing notes relates to accrued interest.

Bank loans

On 26 June 2013, the Parent Company and the subsidiaries: Pfleiderer Prospan S.A. and Pfleiderer 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

11 February 2016, from own cash reserves and were replaced by a new Revolving Credit Facilities ("RCF") Agreement with a consortium of four German and four Polish banks with a sublimit for Pfleiderer Group S.A. and significant Polish subsidiaries amounting to PLN 200 million and for PCF GmbH and Pfleiderer Deutschland GmbH amounting to EUR 60 million.

On 19 January 2016, an amendment to the RCF Agreement came into force which provided Pfleiderer Group S.A. and its Polish subsidiaries with a limit of PLN 200 million (Tranche B) for financing of working capital and other corporate needs. Futhermore, on 8 July 2016 two more Polish subsidiaries - Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Polska Sp. z o.o. (previously Pfleiderer Services Sp. z o.o.) - acceded to the RCF Agreement. At the reporting date this financing facility was not drawn in cash whilst bank guarantees were issued within this credit line for the total amount of PLN 6 559 thousand. The RCF Agreement provides Pfleiderer Deutschland GmbH and PCF GmbH with a limit of up to EUR 60.0 million (Tranche A). This Tranche A is partially drawn for bank guarantees of EUR 2 092 thousand and PLN 1 040 thousand (EUR 236 thousand). This RCF expires on 30 April 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.

(all amounts in EUR thousand)

Financings Core East (exluding factoring and operating leases)

					31 DEC 2016		
LENDER	CURRENCY	INTEREST RATE	DURATION FROM	DURATION TO	CREDIT LIMIT EUR	DRAWN AMOUNT	UNDRAWN AMOUNT EUR
Core East – RCF							
Bank Millennium S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	2 267	-	2 267
Bank Millennium S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	7 129	-	7 129
Bank Zachodni WBK S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	4 535	-	4 535
Bank Zachodni WBK S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	6 802	-	6 802
PKO Bank Polski S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	4 535	-	4 535
PKO Bank Polski S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	6 802	-	6 802
Alior Bank S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	6 802	-	6 802
Alior Bank S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	4 535	-	4 535
Guarantees Core East							
Bank Millenium S.A.	PLN		4 Jul 2014	30 Apr 2019	1 487	1 487	
bank guarantee issued in favour of National Forests			*27 Jan 2014*	*28 Feb 2017*	862	862	
bank guarantee issued in favour of National Forests			*27 Jan 2014*	*28 Feb 2017*	566	566	
bank guarantee issued in favour of of Descont Sp. z o.o.			*22 Sept 2015*	*20 Sept 2017*	59	59	
Limit of credit cards East							
Bank Millenium S.A.	PLN		4 Jul 2014	30 Apr 2019	453	20	433
TOTAL CORE EAST					45 347	1 507	43 840

(all amounts in EUR thousand)

Financing Core West (excluding ABCP and operating leases)

LENDER	CURRENCY	INTEREST RATE	DURATION FROM	DURATION TO	31 DEC 2016 CREDIT LIMIT EUR	DRAWN AMOUNT EUR	UNDRAWN AMOUNT EUR
Core West – RCF							
BNP Paribas	EUR	EURIBOR + margin	4 Jul 2014	30 Apr 2019	15 000	-	15 000
KfW	EUR	EURIBOR + margin	4 Jul 2014	30 Apr 2019	15 000	-	15 000
Commerzbank AG	EUR	EURIBOR + margin	4 Jul 2014	30 Apr 2019	3 000	-	3 000
Commerzbank AG (Ancillary)	EUR	EURIBOR + margin	4 Jul 2014	30 Apr 2019	9 672	-	9 672
Deutsche Bank AG	EUR	EURIBOR + margin	4 Jul 2014	30 Apr 2019	7 500	-	7 500
Deutsche Bank AG (Ancillary)	EUR	EURIBOR + margin	4 Jul 2014	30 Apr 2019	6 000	-	6 000
Guarantees Core West							
Commerzbank AG	EUR		4 Jul 2014	30 Apr 2019	2 328	2 328	-
Deutsche Bank AG (Ancillary – Guarantees)	EUR		4 Jul 2014	30 Apr 2019	1 500	-	1 500
Other debt instruments							
Senior Secured Notes issued	EUR		7 Jul 2014	1 Aug 2019	321 684	321 684	-
TOTAL CORE WEST					381 684	324 012	57 672

(all amounts in EUR thousand)

Credit agreements for special purposes:

Investment facility agreement with PKO BP S.A.

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

This bank loan was fully repaid on 11 February 2016. (As at 31 December 2015, the Group's debt outstanding under this facility was PLN 62,626 thousand).

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, an 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 term 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.

Revolving Facility Agreement

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

PCF GmbH, Pfleiderer Services GmbH, Pfleiderer Deutschland 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 Silekol Sp. z o.o.

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

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

and

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

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

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

(all amounts in EUR thousand)

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

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

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

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

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

Liabilities under borrowings from related parties

As at 31 December 2016 and 2015, the Group did not carry any borrowings from related parties.

24 Employee benefit obligations

	31 DEC 2016	31 DEC 2015
Salaries and wages	7 273	1 007
Personal income tax	3 094	390
Social security	1 449	1 169
Social Benefits Fund	233	405
Retirement benefit obligations	57 004	2 462
Unused holiday accrual	1 861	872
Employee bonus accrual	7 591	1 586
Other personel liabilities	506	-
TOTAL	79 011	7 891
Non-current portion	56 893	2 267
Current portion	22 118	5 624
TOTAL	79 011	7 891

Core West:

Pfleiderer Group grants its employees defined benefit pension commitments on a case-by-case basis. In addition, there are still prior commitments in place from various pension systems, the benefits of which cover pensions for old age, disability and surviving dependents. The pension funds were closed to new entrants on or before 31 May 1986.

There are several defined benefit pension plans and individual commitments to current and former employees in effect within the Pfleiderer Group. Some defined benefit pension plans are final salary plans, while others provide for fixed pension amounts. The amount of pension payments is also based on the beneficiary's seniority. All pension plans are subject to the legal provisions of the German Company Pension Act [Betriebsrentengesetz]. Among other things, this legislation stipulates that, from the outset, the amount of benefits disbursed must be adjusted in line with the development of the general consumer price index. Because the pension obligation is coupled to the consumer price index, the pension plan is subject to risks due to changes in the rate of inflation, interest and the life expectancy of pension beneficiaries. For the reporting periods ending on 31 December, pension provisions were comprised as follows:

'000 EUR	31 DEC 2016	31 DEC 2015
Defined benefit obligation (Core West)	54 636	-
Retirement bonuses long term (Core East)	2 257	2 268
Retirement bonuses short term (Core East)	111	194
PROVISION FOR EMPLOYEE RETEIREMENT BENEFIT OBLIGATIONS	57 004	2 462

Benefits disbursed under defined benefit pension plans in Germany are primarily a function of the number of years of an employee's service, the individual's age, and his or her salary. The costs and obligations arising under defined benefit pension plans are determined on the basis of actuarial reports prepared using the projected unit credit method. This method considers the services already performed by the employees in relation to the valuation date and also includes estimates with regard to future salary and pension trends. Within the reports drawn up for the valuation at 31 December 2016, the following assumptions were made for the defined benefit plans:

	2016	2015
Discount factor	1.33%	2.19%
Wage increase rate	2.50%	2.50%
Pension adjustment	1.80%	1.80%

The discount factor applied roughly corresponds to the interest rate that could be achieved for blue-chip, fixed-interest corporate bonds (AA rating) with a corresponding maturity on the market on the valuation date of the benefit obligation. The annual rate of salary increases, together with pension adjustments, was taken into account in the calculation of pension entitlements.

With respect to defined benefit plans, the Group's obligation is to provide benefits to active and former employees as promised.

The following table explains the change in the defined benefit obligation as reported in the consolidated financial statements as of December 31, 2016. There are no plan assets. The provision thus corresponded to the benefit obligation (shortfall).

'000 EUR	2016
Initial recognition Core West on January 19, 2016	49 911
Current service cost	318
Interest expenses	892
Subtotal reported in the profit/loss for the period	1 210
Pension payments	-2 457
Acturial gains and losses from changes to demographic assumptions	0
Acturial gains and losses from changes to financial assumptions	6 053
Experience based adjustments	-81
Subtotal in other comprehensive income	5 972
	0
DEFINED BENEFIT OBLIGATION	54 636

The present value of the defined benefit obligation (DBO) not covered by plan assets as of the reporting date amounted to EUR 54,636 thousand (shortfall).

In 2016, the experience-based adjustments to benefit obligations amounted to EUR -81 thousand and the actuarial gains/losses due to changes in financial assumptions amounted to EUR 6,053 thousand.

At the end of the reporting period, the average maturity of the defined benefit obligation amounted to 13.6 years.

The benefit obligations were calculated based on the 2005 G Heubeck mortality tables.

A quantitative sensitivity analysis of the key assumptions as of the reporting date is shown below.

'000 EUR	31 DEC 2016	31 DEC 2015
Effect on the defined benefit obligation		
Increase of the interest rate by 0.25%	-1 761	-1 655
Decrease of the interest rate by 0.25%	1 860	1 751
Increase of the future pensions by 0.25%	1 482	1 378
Decrease of the future pensions by 0.25%	-1 419	-1 319
Increase of the life expectancy of pension recipients by 1 year	3 189	2 896

The above sensitivity analyses have been specifically and individually evaluated; these values are not the outcome of a process of estimation. The probability of fluctuation does not represent a significant actuarial assumption, as the pension funds were closed to new entrants on or before May 31, 1986, and the probability of fluctuation approaches zero with advancing age.

Core East:

Retirement bonus and disability obligations

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

Every employee reaching the retirement age (60 years for woman, 65 years for men, based on the transitional regulations – signed by the Polish President on 19 December 2016), who has the required documented years of service, is entitled to receive retirement benefits. Employees with permanent work disability, with an entitlement to disability benefits under the social security scheme, are entitled to receive disability severance payments. The amount of retirement payment or disability severance payment is computed based on the employee's one-month pay. The amount of the bonus or severance payment increases proportionately following ten years of service at the Group at the rate of 10% of the base pay for each year of service in excess of ten years, and following 20 years of service at the Group – at the rate of 20% of the base pay for each year of service in excess 20 years. Pursuant to Art. 92[1]§1 of the Labour Code, retirement bonuses and disability severance payments must not be lower than the employee's one-month pay.

Obligations under retirement and disability severance payments were determined by a qualified actuary using the actuarial projected unit credit method.

Assumptions used for calculation of the retirement bonus in the financial year ended 31 December 2016:

- Data on staff turnover was derived from the statistics of Core East entities, as well as from the statistics available to an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. To reflect the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.
- The future mortality rate was based on the probability of death depending on age and based on published statistics and the information from 2015 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the mortality rate of the population of the Group's employees is similar to tables, adjusted for the mortality multiplier. Additionally it was assumed that the mortality rate is constant throughout the whole year.
- The probability of becoming a disabled person was calculated based on the historical data from the Social Insurance Institution and estimates prepared by an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. According to the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does not demonstrate significant sensitivity to slight changes of this parameter.

(all amounts in EUR thousand)

- The retirement age for women is 60 years/ men is 65 years (The law signed by the President on December 19, 2016 r., taking into account the transitional regulations).
- All benefits were calculated at the beginning of each calendar year, with the assumption that all of them are regularly distributed throughout the year.
- The increase in salaries and wages was assumed at 3% per annum.
- The discount rate on future benefits was assumed at 3.59%.

25 Provisions

	1 JAN 16	ACQUISITION	ADDITIONS	UTILISATION	REVERSAL	CURRENCY DIFFERENCE	31 DEC 16
Non-current							
Restructuring costs	-	-	1 926	-	-	-	1 926
Severence payments	-	995	1 325	-27	-1 518	-	775
Other provisions	201	736	108	-48	-	-4	993
Current							
Restructuring costs	-	-	5 132	-	-	-	5 132
TOTAL	201	1 731	8 491	-75	-1 518	-4	8 826

	1 JAN 15	ACQUISITION	ADDITIONS	UTILISATION	REVERSAL	CURRENCY DIFFERENCE	31 DEC 15
Other provisions	191	-	10	-	-	-	201
TOTAL	191	-	10	-	-	-	201

Provision for restructuring costs – the provision relates to redundancy payments due to the restructuring the Group is undergoing and was raised based on agreement with the German central works council. Settlement will be according to the terminations of the individual employments.

Severence payments provision – redundancy packages for employees electing early retirement. Settlment will be paid according to the terminations of the individual employments.

(all amounts in EUR thousand)

26 Trade and other payables

	31 DEC 2016	31 DEC 2015
Trade payables	89 059	32 439
Trade payables to related parties	-	1 826
Liabilities under factoring agreements	32 793	14 123
Insolvency-related liabilities of PCF GmbH	10 322	-
VAT liabilities	486	-
Liabilities for capital expenditures	2 527	3 506
Liabilities for capital expenditures from related parties	-	477
Liabilities for derivatives (forward transactions)	724	12
Prepaid deliveries	354	412
Liabilities related to equity increase	-	5 736
Other liabilities	25 149	3 945
TOTAL	161 414	62 476

Other liabilities as of 31 December 2016 comprised mainly of accruals for antitrust proceedings of EUR 7 650 thousand, accruals for other operating expenses (EUR 3 658 thousand), taxation related to the acquisition (EUR 5 422 thousand), other tax payables of EUR 2 311 thousand and provisions for the cost of emission rights (EUR 616 thousand).

For details on liabilities under factoring agreements, see Note 20.

Trade and other payables include the following financial liabilities:

	31 DEC 2016	31 DEC 2015
Trade payables	89 059	32 439
Trade payables to related parties	-	1 826
Liabilities under factoring agreements	32 793	14 123
Liabilities from capital expenditures	2 527	3 506
Liabilities from capital expenditures from related parties	-	477
Liabilities from derivatives (forward transactions)	724	12
Other liabilities	14 611	9 285
TOTAL	139 714	61 668

27 Financial instruments

Objectives and methods of financial risk management applied by the Group

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

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

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

– credit risk

– market risk, including:

- foreign currency risk and
- interest rate risk

– liquidity risk

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

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

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

Derivative (currency forwards) transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing relevant documentation.

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

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

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

a. Credit risk

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

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

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

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

In order to reduce the risk of customers' insolvency, the Group also insures a portion of its receivables within the organized trade credit insurance programs. As at the end of 2016, approximately 77% of total trade receivables from unrelated parties were covered by trade credit insurance. The insurance policies secured credit risk – if a customer fails to pay, the insurer covers the loss.

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

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

(all amounts in EUR thousand)

The total credit risk exposure was as follows:

	31 DEC 2016	31 DEC 2015
Long term investments	515	18
Loans advanced and receivables	33 384	20 821
Cash and cash equivalents	97 726	20 720
Receivables from equity increase	-	84 863
TOTAL	131 625	126 422

As at 31 December 2016, the ageing of trade receivables was as follows:

	GROSS VALUE 31 DEC 2016	IMPAIRMENT LOSS 31 DEC 2016
Not overdue	16 909	585
Overdue by:		
0–180 days	2 095	143
180–360 days	-	-
More than 360 days	1 314	1 212
TOTAL	20 318	1 940

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

	GROSS VALUE 31 DEC 2015	IMPAIRMENT LOSS 31 DEC 2015
Not overdue	14 452	12
Overdue by:		
0–180 days	5 116	100
180–360 days	62	37
More than 360 days	1 562	1 549
TOTAL	21 192	1 698

Movements in the impairment allowance for trade receivables for the twelve months ended 31 December 2016 and 31 December 2015 are presented below.

	1 JAN – 31 DEC 2016	1 JAN – 31 DEC 2015
Balance at beginning of the period	**1 698**	**2 167**
Change in impairment losses	903	-482
Utilisation of the allowance	-605	0
Currency translation adjustment	-56	13
BALANCE AT END OF THE PERIOD	1 940	1 698

(all amounts in EUR thousand)

b. Interest rate risk

The Group holds cash at banks. Interest rate risk related to cash flow of financial instruments is dependent on the floating interest rates. As at the end of each reporting periods, the Group did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

VARIABLE-RATE FINANCIAL INSTRUMENTS	31 DEC 2016	31 DEC 2015
Financial assets	14 086	767
Financial liabilities	-	14 687

Sensitivity analysis of cash flows for variable-rate financial instruments

The below interest rates variations were calculated based on observations of interest rates fluctuations in 2016 and 2015.

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

	1 JAN 2016–31 DEC 2016		1 JAN 2015–31 DEC 2015	
	INCREASE 1%	DECREASE 1%	INCREASE 1%	DECREASE 1%
Variable-rate financial instruments and effect on profit/(loss) before tax	106	-106	-184	184
Effect on equity excluding P&L affect	-	-	-	-

Sensitivity analysis of fair value of fixed-rate financial instruments

The Group has outstanding high yield notes at a fixed-rate valued at acqusition at fair value and subsequently accounted for at amortized cost. Fair value may change due to changes in interest rates on the market however it has no impact on the financial statement as the instrument is subsequently valued at amortized cost.

The group does not hold any financial assest or liabilities measured at fair value through profit or loss or any interest rate derivatives as hedging instruments.

Therefore a change in interest rates at the reporting date would not affect the statement of profit and loss and other comprehensive income through changes in the fair value of financial instruments.

c. Currency risk

The Group is exposed to currency risk mainly due to the extent that there is a mismatch between the currencies in which trade transactions, purchases of materials and merchandise and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is primarily the Euro (EUR) and Polish zloty (PLN). The main currencies in which foreign currency transactions are denominated are Euro, US dollars and pound sterling (GBP). However, foreign exchange gains or losses resulting from exchange rate fluctuations mostly offset each other (natural hedging).

The Group also incurs capital expenditures in foreign currencies. The Group monitors its foreign currency positions on an ongoing basis and hedges its currency risk of open positions with forward transactions. In 2016, the Group used forward contracts to hedge its currency risk related to commercial transactions (export of goods). The forward contracts used to hedge the Group’s commercial transactions in Core East consist of the sale of EUR at a pre-determined rate. This helps to secure margins on export sales and to mitigate the risk of adverse changes of the margins due to appreciation of the Polish zloty.

(all amounts in EUR thousand)

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

The Group's exposure to currency risk, calculated at the exchange rates effective at the end of the reporting period is presented below:

31 DEC 2016:	EUR	USD	RUB
Cash	4 408	106	-
Trade receivables	7 204	53	-
Other receivables	3	-	-
Trade and other payables, investment payables, factoring payables	-13 194	-	-
Other liabilities	-5 044	-	-11
Statement of financial position exposure, gross	**-6 623**	**159**	**-11**
Transactions in derivative instruments:	-	-	-
- hedging of future transactions	-24 000	-	-
- forward transactions – Pfleiderer Silekol Sp. z o.o.	-7 100	-	-
NET EXPOSURE TO FINANCIAL INSTRUMENTS	-37 723	159	-11

31 DEC 2015 :	EUR	USD	RON
Cash	9 944	34	-
Trade receivables	13 199	-14	-
Trade and other payables, investment payables, factoring payables	-11 924	-6	-4
Statement of financial position exposure, gross	**11 219**	**14**	**-4**
Transactions in derivative instruments:			
- hedging of future transactions	-67 762	-	-
- forward transaction hedging purchase of shares in PCF GmbH	119 213	-	-
NET EXPOSURE TO FINANCIAL INSTRUMENTS	62 670	14	-4

Sensitivity analysis for currency exchange rate changes

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

31 DEC 2016 :	5%	-5%
EUR	-330	330
USD	8	-8
RUB	0	0
EFFECT ON PROFIT/(LOSS) BEFORE TAX	-323	323
EFFECT ON EQUITY	-1 556	1 556

31 DEC 2015:	5%	-5%
EUR	572	-572
USD	1	-1
EFFECT ON PROFIT/(LOSS) BEFORE TAX	573	-573
EFFECT ON EQUITY	2 124	- 2 124

(all amounts in EUR thousand)

The sensitivity analysis was based on the following exchange rates of the EURO against other currencies.

CURRENCY	EXCHANGE RATE AS AT 31 DEC 2016	EXCHANGE RATE AS AT 31 DEC 2015
EUR	1.0000	1.0000
RUB	64.300	80.6736
PLN	4.4103	4.2639

(all amounts in EUR thousand)

d. Liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date:

31 DEC 2016 :	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	BELOW 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Liabilities under borrowings and other debt instruments	340 660	398 025	12 829	12 846	25 333	347 017	-
Trade and other payables	139 714	139 714	139 596	109	9	-	-
	480 374	**537 739**	**152 425**	**12 955**	**25 342**	**347 017**	**-**

31 DEC 2015:	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	BELOW 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Liabilities under borrowings and other debt instruments	14 687	15 532	2 712	2 787	5 414	4 619	-
Trade and other payables	61 668	61 668	61 668	-	-	-	-
	76 355	**77 200**	**64 380**	**2 787**	**5 414**	**4 619**	**-**

As at 31 December 2016, the Group's debt outstanding under the bank borrowings and issued debt instruments was EUR 340 660 thousand, unused credit facilities amounted to EUR 101 512 thousand. The Group also held cash of EUR 97 726 thousand.

(all amounts in EUR thousand)

e. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximate their carrying amounts as at 31 December 2016 and 31 December 2015 with the exception of the High Yield Bond, listed at the Irish Stock Exchange, quoted at 104.187% of par value (level 1) on 31 December 2016, equal to EUR 335 153 thousand (carrying amount of EUR 329 762 thousand, plus accrued interest of EUR 10 555 thousand).

f. Valuation of financial assets and liabilities at fair value

As at 31 December 2016, the Group held 15 open forward contracts with a nominal exposure amounting to EUR 31 100 thousand. The fair value of the open contracts amounted to EUR 724 thousand (liability), based on level 2 input factors.

As at 31 December 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 contracts. The fair value is based on brokers quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

g. Capital management

The Group defines equity as the carrying amount of its total equity translated in EUR at a historical rates.

The key ratio used by the Group to monitor equity is the ratio of equity to total assets. At the end of 2016, the ratio decreased from 70.30% to 28.42% due to the aquisition of the Core West companies by the Group.

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

	31 DEC 2016	31 DEC 2015
Equity	271 255	279 148
Total assets	954 580	397 079
Ratio:		
EQUITY / *TOTAL ASSETS*	28.42%	70,30%

(all amounts in EUR thousand)

28 Operating lease agreements

The Group leases a number of production assets under operating leases and a property. The leases typically run for a period of 1-14 years and agreements will expire in 2017-2050 (leased land ends in 34 years).

The Group also leases vehicles and IT equipment under operating lease agreements. The leases typically run for 3-5 years and the agreements will expire in 2017-2021.

Monthly lease payments are charged to the reporting period's profit or loss using the straight-line method.

The costs incurred by the Group under the operating lease agreements in 2016 were EUR 9 804 thousand

(in 2015:EUR 1 635 thousand).

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

	31 DEC 2016	31 DEC 2015
More than 5 years	17 483	-
From 1 to 5 years	18 968	214
Up to one year	8 347	335
TOTAL	44 798	549

29 Security and contingent liabilities

Security

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

As at 31 December 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 4 July 2014 (as amended and restated) entered into in connection with the EUR 60 million and PLN 200 million RCF Agreement dated 4 July 2014 (as amended and restated) between, inter alios, Pfleiderer 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 PCF GmbH.

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 Pfleiderer 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 bank account

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 Pfleiderer 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 of 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 31 December 2016, certain members of the Group have established the following security for the liabilities under the RCF Agreement of EUR 60 million and PLN 200 million as well as the liabilities under the PCF GmbH (ex. Pfleiderer GmbH) 7.875% Senior Secured Notes with nominal a value of EUR 321 684 thousand due 2019 and certain hedging arrangements:

Security interest over shares

PCF GmbH, Pfleiderer Deutschland GmbH and Pfleiderer Vermögensverwaltung GmbH & Co. KG as pledgors have granted pledges over shares in Pfleiderer GmbH, Pfleiderer Deutschland 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

PCF GmbH, Pfleiderer Deutschland 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

PCF GmbH, Pfleiderer Deutschland 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 Deutschland 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

PCF GmbH, Pfleiderer Deutschland 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 Deutschland GmbH and Pfleiderer Baruth GmbH have also been granted as security.

C) Guarantees by the members of the Group

As at December 31, 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 Secured Notes with the nominal value of EUR 321,684 thousand issued by PCF GmbH (ex. Pfleiderer GmbH) and due in 2019. These members of the Group are: Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland 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 Pfleiderer Silekol Sp. z o.o.

Contingent liabilities

As at the end of 2016 the Group did not identify any significant contingent liabilities except for a potential liability resulting from the antitrust proceedings described below.

Eastern Europe:

Following a dawn-raid in October 2011, on 30 March 2012, the Polish Office of Competition and Consumer Protection (the "OCCP") commenced proceedings against Kronospan Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Kronopol Sp. z o.o., Pfleiderer Group S.A. and Pfleiderer Prospan S.A., regarding possible horizontal price fixing and exchange of information on conditions of sale in the chipboard and fibreboard markets in Poland, which may constitute breaches of Article 6 of the Act on Competition and Consumer Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. The maximum fines that the OCCP may impose on Pfleiderer Group S.A. and/or Pfleiderer 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 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 recognition of a provision for this matter. Therefore as at December 31, 2016, no provision has been recognized by the Group in these consolidated financial statements.

Western Europe:

An earlier investigation by the German Federal Cartel Office in 2009 concluded in 2011 that PCF GmbH (then, Pfleiderer 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. PCF GmbH’s share of the fine was settled in yearly instalments and fully repaid by the end of 2016.

As described below, two of the Pfleiderer Group’s customers have sued the Pfleiderer Group for damages in connection with these antitrust violations. The companies are seeking compensation in connection with these antitrust violations. The outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Based on its best knowledge the Management estimated costs related to antitrust violations of EUR 7 650 thousand which include costs related to legal proceedings with Classen as well as legal costs and amicable settlements of claims from Alno, Oesder and Huels. Depending on the final outcome of the negotiations and/or the proceedings, the Group could be obligated to make further 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 Pfleiderer Group’s current customers, filed an action with the regional court of Düsseldorf (Landgericht Düsseldorf) against the custodian (Sachwalter) of PCF GmbH (then Pfleiderer AG) seeking the acceptance of its claim to the insolvency schedule (Insolvenztabelle) filed in May 2012. The insolvency proceedings ended in December 2012. In April 2013, after the insolvency proceedings had ended, Classen extended its claim to PCF GmbH. Classen seeks payment of the insolvency quota in the amount of EUR 1.3 million based on a claim for potential damages arising from the same deliveries as in the case against Pfleiderer Baruth GmbH, as described below. The court is inclined to dismiss the claim in its entirety because it deems the claim against the custodian as inadmissible due to the absence of authority to litigate at the time the claim was served on the (then former) custodian (January 2013). As regards PCF GmbH, the court deems that Classen did not meet the exclusion period stipulated in the insolvency plan. The court’s decision is scheduled for 27 April 2017.

In December 2012, Classen also filed an action for damages with the regional court of Düsseldorf (Landgericht Düsseldorf) against Pfleiderer Baruth GmbH (then: Pfleiderer Faserplattenwerk Baruth GmbH) currently amounting to approximately EUR 55.4 million (plus interest). The proceeding is still pending and the outcome, i.e. the further 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. At the recent oral hearing on 2 February 2017, the court has not clearly indicated whether it deems the claim justified as to the merits or not. The court intends to decide on the further proceedings on 27 April

2017. As a result, the management has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision or accrual has been recognized by the Group in these consolidated financial statements.

In December 2014 Alno AG ("Alno"), one of the Pfleiderer Group's customers, has claimed substantial damages from PCF 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 PCF GmbH and another party in late December 2015 (in total EUR 32.9 million plus interest). As at 31 December 2016 the Management based on its best knowledge recognised an accrual for the expected outcome which is included in the total amount of EUR 7 650 thousand. Plaintiff is due to file its next submission on 11 April 2017. It is intended that the parties try to negotiate an out-of-court settlement. However, the first settlement offer in the amount of EUR 1 million cash and EUR 0.4 million in discounts on future deliveries has been rejected by ALNO. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfleiderer 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, PCF GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court has passed a judgement on 31 May 2016 according to which the claim is justified on the merits but subject to further discussion regarding quantum. Glunz AG has filed an appeal against this decision with the higher regional court in Celle. The oral hearing is scheduled for 17 October 2017. As at 31 December 2016 the Management based on its best knowledge recognised an accrual for the expected outcome which is included in the total amount of EUR 7 650 thousand. PCF GmbH's obligation for substantial payments may result from a contribution claim (Gesamtschuldnerinnenausgleichsanspruch) based on PCF GmbH's joint and several liability (Gesamtschuld), if Glunz or any other third party is obligated to pay compensation to Oeseder. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

Hüls Group is seeking damages for all chipboards supplied by the Pfleiderer Group and other producers from 2002 to 2008. PCF GmbH has successfully reached an out-of-court settlement with Hüls covering all claims arising from direct and/or indirect deliveries from the Pfleiderer Group to the Hüls Group for a total payment of EUR 2.5 million, included in total amount of EUR 7 650 thousand. The settlement agreement is currently being signed by the Hüls Group.

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 PCF GmbH (formerly Pfleiderer 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 Pfleiderer Deutschland GmbH, which could in turn lead to an assessment requiring payments of tax arrears. As a result of the change in shareholders of PCF GmbH that occurred as of 19 January 2016, it is possible that the tax losses for 2016 may also not be realizable. It cannot be ruled out that the fiscal authorities will reject the position taken by PCF 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 PCF GmbH in December 2015, which may lead to uncertainty with regard to the possibility of tax loss utilization for the 2015 financial year. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

In 2014 PCF GmbH (and its subsidiaries) recognized valuation allowances for receivables to the so-called "Non Core"-companies of the former Pfleiderer Group in respect of foreign currency gains recognised 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 PCF GmbH, which could cause additional tax payments. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

(all amounts in EUR thousand)

PCF GmbH is subject to a tax risk regarding the restructuring gain incurred in 2012 in connection with the insolvency plan. The tax treatment of the restructuring gain may be affected by a judgment of the Federal Fiscal High Court published on February 07, 2017 (GrS 1/15). According to the decision, the decree of the Federal Ministry of Finance dated March 27, 2003 (so called “Sanierungserlass”) which ensures a preferential treatment of the restructuring gain is incorrect. This decision may lead to uncertainty regarding the possibility of receiving a waiver from the tax authorities for any taxes due on the restructuring gain to the extent that PCF is not protected by binding rulings issued by the competent authorities. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

30 Key management personnel compensation

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

NAME	1 JAN – 31-GRU-16	1 JAN – 31-GRU-15
Michael Wolff	874	202
Richard Mayer	766	-
Rafał Karcz	288	136
Dirk Hardow (from 1 November 2016)	84	-
Wojciech Gątkiewicz	261	254
Dariusz Tomaszewski (till 2 March 2016)	13	142
Dr. Gerd Schubert (till 1 June 2016)	231	131
	2 517	865

Beside the regular remuneration of Mr. Gerd Schubert, the Group recorded an expense for severance payment (termination benefits) due to his dismissal in the amount of EUR 610 thousand.

No member of the Company’s Management Board had loan-related debt towards the Group.

(all amounts in EUR thousand)

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

NAME	1 JAN – 31 DEC 16	1 JAN – 31 DEC 15
Wojciech Gątkiewicz	183	252
Rafał Karcz	55	134
Dariusz Tomaszewski	95	144
	333	530

As at the end of 2016 members of the Management held the following number of Pfleiderer Group shares:

- Member of the Management Board Wojciech Gątkiewicz - 5 400 Company shares
- Member of the Management Board Rafał Karcz - 3 472 Company shares

As of 31.12.2016 the members of the Management Board have the following contracts:

- Mr. Michael Wolff – contract with PCF GmbH until 31.12.2017; in the event of termination before this date is entitled a maximum of two years' basic salary limited to the remaining term of his contract.
- Mr. Richard Mayer – contracts with PCF GmbH until 31.12.2018; in the event of termination before this date is entitled a maximum of two years' basic salary limited to the remaining term of his contract.
- Mr. Dirk Hardow – contract with PCF GmbH concluded for 3 years beginning from 1 November 2016; in the event of earlier termination is entitled a maximum of two years' basic salary limited to the remaining term of his contract.
- Mr. Wojciech Gątkiewicz – contract with the Parent Company concluded for indefinite period of time. Contract may be terminated subject to 12 – month notice effective as of the middle the calendar year.
- Mr. Rafał Karcz – contract with the Parent Company concluded for indefinite period of time. Contract may be terminated subject to twelve months' notice, effective as of the middle the calendar year and a notice of termination of the contract may be submitted on 31.12.2018 at the earliest. In the event of earlier termination of the contract he is estitled to receive a contractual penalty being a product of twice the monthly basic salary and the number of months until 31.12.2019. Additionally if the contract is terminated in an ordinary manner, Mr. Karcz will be entitled to one-off severance pay equal to his annual basic salary and variable remuneration granted for the calendar year preceding the year in which the contract has been terminated.

Changes in the Management Board

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

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

On 2 March 2017 the Chairman of the Management Board, Mr. Michael Wolff filed his resignation from this position. On the same day the Supervisory Board of the Group appointed Mr. Thomas Schabinger as the chairman of the Management Board and the General Director. Accordingly to ad hoc reports no. 19/2017 and 20/2017 changes are effective as of 1 June 2017.

(all amounts in EUR thousand)

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

NAME	1 JAN – 31 DEC 2016	1 JAN – 31 DEC 2015
Zbigniew Prokopowicz (from 19 February 2016)	193	-
Jason Clarke	-	-
Paolo Antonietti (till 29 June 2016)	49	46
Gerd Hammerschmidt (till 19 January 2016)	2	14
Michael Keppel	88	23
Tod Kersten	20	-
Richard Mayer (till 19 January 2016)	2	25
Christoph Mikulski (till 29 June 2016)	24	14
Jochen Schapka (till 19 January 2016)	2	25
Krzysztof Sędzikowski (from 19 February 2016)	63	-
Stefan Wegener (from 19 February 2016)	87	-
Jan Woźniak	58	25
	588	172

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

Members of the Pfleiderer Group S.A. Supervisory Board did not hold any shares in the Company at the end of 2016.

Changes in Supervisory Board

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

On 19 February 2016, Mr Zbigniew Prokopowicz, Mr Krzysztof Sędzikowski and Mr Stefan Wegener were appointed to the position of Members of the Supervisory Board.

On 2 March 2016 Mr Zbigiew Prokopowicz was appointed to the position of Deputy Chairman of the Supervisory Board.

On 2 March 2016, the following Supervisory Board resolved to form a Transformation Committee of the Parent Company's Supervisory Board, with the following members: Mr. Antonietti (till 29 June 2016), Mr. Prokopowicz and Mr. Wegener.

On 22 June 2016 Mr. Christoph Mikulski and on 23 June 2016 Mr. Paolo G. Antonietti (Chairman of the Supervisory Board) resigned from the Supervisory Board. Their resignations became effective on 29 June 2016 - the date of appointment of new members: Mr. Jason Clarke and Mr. Tod Kersten in their place by the General Meeting of Shareholders.

On 29 June 2016 the Company's Supervisory Board elected from its members Mr. Zbigniew Prokopowicz to serve as the Chairman of the Company's Supervisory Board and Mr. Jason Clarke to serve as the Vice-Chairman of the Supervisory Board.

31 Acquisition of subsidiaries ("Core West")

On 19 January 2016, Pfleiderer Group S.A. acquired from Atlantik S.A. the only share in PCF 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 257 403 thousand. The acquisition was an integral part of the "ONE Pfleiderer" project aimed at the creation a fully integrated Group.

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	
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

The fair value of the acquired assets and liabilities was determined as of 19 January 2016 and was as follows::

'000 EUR	FAIR VALUE
Intangible assets	96 120
Property, plant and equipment	393 043
Inventories	59 858
Receivables (incl. "PSG-claim" of EUR 134,979k)	145 195
Cash and cash equivalents	109 661
Other assets (incl. tax receivables)	17 545
Deferred tax assets	2 948
TOTAL ASSETS	824 370
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
TOTAL LIABILITIES	-533 342
Deferred tax assets	8 075
Deferred tax liabilities	-83 248
DEFERRED TAXES ON FAIR VALUE ADJUSTMENTS	-75 173
TOTAL IDENTIFIABLE NET ASSETS ACQUIRED	215 855
Brandname "Pfleiderer"	19 498
Entitlement to EEG remuneration	16 443
Customer relationship "Handel"	37 727
Customer relationship "Industrie"	15 714
Order backlog	1 712
Other	5 026
INTANGIBLE ASSETS AT FAIR VALUE	96 120

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 41 548 thousand arising from the acquisition has been determined as follows :

'000 EUR	ACQUIRED NET ASSTS (FAIR VALUE)	CONSIDERATION TRANSFERRED	RESIDUAL GOODWILL
Determination of goodwill	**215 855**	**257 403**	**41 548**

None of the goodwill recognized is expected to be deductible for tax purposes.
Due to the fact that the acquisition will generate synergies throughout the Group with a significant beneficial impact on existing Core East operations, part of the goodwill (EUR 11 816 thousand) was allocated to the Core East operations.

Impact on cash flow

Consideration transferred	257 403		
cash consideration		*119 353*	(a)
transaction costs		*7 375*	
intra group claim		*134 979*	
effective portion of cash flow hedge		*-4 304*	
Cash Loan from PSG to Grajewo on acquisition (cash of acquired companies)	43 587		(b)
Cash of acquired companies	66 129		(c)
EFFECT OF AQUISITIONON CASH FLOW	-9 637		-(a)+(b) + (c)

The amounts of revenue and profit of the former Pfleiderer GmbH Group since the acquisition date included in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2016, is as follows:

- Revenue: : EUR 620 929 thousand
- Net Profit: EUR 158 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 1 January 2016, is as follows:

- Revenue: EUR 960 401 thousand
- Net Profit: EUR 11 736 thousand

32 Events subsequent to the end of the reporting period

In February 2017 the Group announced its plans to refinance the:

- senior collateralised bonds (with a face value of EUR 321 684 thousand)
- revolving bank loans (with a nominal values of EUR 60 000 thousand and PLN 200 000 thousand).

In line with strong and advantageous trends on the institutional debt market and bond market, the Group is looking to refinance its debt position in order to obtain a more flexible and cost effective financing solution.

On 13 April 2017 the refinancing agreement has been signed.

Michael Wolff
President of the Management Board

Richard Mayer
Member of the Management Board,
Chief Financial Officer

Dirk Hardow
Member of the Management Board,
Chief Operating Officer

Wojciech Gątkiewicz
Member of the Management Board, Chief Sales Officer

Rafał Karcz
Member of the Management Board,
Chief Administration Officer

Wrocław, 25 April 2017

PFLEIDERER

INSPIRATIONS
CLOSE
TO YOU

MANAGEMENT BOARD REPORT

ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A.
AND THE CAPITAL GROUP FOR THE YEAR ENDED
31 DECEMBER 2016

TABLE OF CONTENTS

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

MICHAEL WOLFF

President and CEO

“2016 was the most exceptional year in the last 20 years of Pfleiderer Group”

“The re-IPO process lifted the Company to the next level”

“Our excellent positioning in the challenging market environment in Europe continued to improve”

Dear Shareholders,

2016 was not only the most exceptional year in the last 20 years of Pfleiderer Group, but also a significant milestone, we successfully completed the reorganization of the Group. The re-IPO process was finalized in January 2016 and lifted the Company to the next level. As a result of the merger of the Eastern and Western segments, ONE PFLEIDERER - one of the Europeans leading manufacturer of wood-based products was established. However, the history of our company is a history of pivotal moments, made to retain a leading position in the wood based panel industry and construction market – it starts more than 120 years ago. For us it is a starting point to develop our company successfully further. We want to continue to profitability growth in a sustainable way, as wood is probably the closest and the most natural materials for humans, the care for environment is encoded in the DNA of our company.

Business also developed to our complete satisfaction in 2016. Our already excellent positioning in the challenging market environment in Europe continued to improve and is supported by the growth of the national economies with positive outlook for the construction markets in both DACH and Poland. Today, we can declare that our concentration on premium strategy in value-added segment was a good decision, were successful and became the manufacturer of state-of-the-art, high-quality products that are used in prospective business sectors.

In the whole 2016 year, the Pfleiderer Group generated revenues of EUR 960 million[1] against EUR 984.5 million (including old Pfleiderer Group) in revenues in 2015. This reduction was mainly affected by lower sales prices and a negative exchange rate effect by EUR 28.7 million, but was compensated by a stable volume growth in all product categories (EUR 19 million) and overall favorable material prices. Normalized EBITDA amounted to EUR 148.9 million[2] and increased by 12.5% compared with 2015. The margin on normalized EBITDA was a record in the perspective of 20 years and amounted to 15.5%. The Group is well on track and we are expecting the sustainable EBITDA to increase further over this year. 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.

We successfully strengthened our ability to invest, reflected in capital expenditure in the amount of EUR 52 million in 2016. The implementation of strategic projects, such as 4-Pack Project in Grajewo, a new worktop line and Dynasteam in Wieruszów, sanding line in the biggest particleboard production plant in Neumarkt, as well as improved operational efficiency what in overall increases Pfleiderer’s competitiveness in the market.

Last year we changed the name of the company - Pfleiderer Grajewo SA has become the Pfleiderer Group SA - the new name reflects the international nature of the Group. At the same time the Company's main office was moved from Grajewo to Wroclaw. Strategic changes have been made in the structure of the Group, which is expected to increase management efficiency and force Group’s future development as an international entity.

[1] Reported revenues of EUR 929.6 million excludes first 19 days of Core West segment.
[2] Reported EBIDTA of EUR 147.8 million excludes first 19 days of Core West Segment, it increases by 11.7% compared to 2015.

In January 2017 during BAU Trade Fair in Munich one common collection “ONE COLLECTION” was first time presented, under our motto “Inspirations close to you”. It is a unique program of 360 different decors. The concept of "Inspirations close to you" covers besides new decors, also a number of new surface structures and new boards as well as worktops. In addition, Pfleiderer range also includes innovations like electrostatically dissipative wood-based panels, genuine metal finishes and customized digital prints.

This year, we will celebrate the 20th anniversary of the first quotation of the Company’s shares on Warsaw Stock Exchange. This historic event for the Company took place on 6 May 1997. In March last year, we joined the mWIG40 index, the prestigious group of Polish issuers that can boast of such a long experience. The Company’s success was reflected in shares quotations which, beginning of this year, reached their maximum since almost 10 years and were priced at over 45 PLN, this means that the Company’s market capitalization has increased to almost PLN 2.8 billion. We would like to warmly thank our shareholders for the trust they have shown in our company. To allow you to participate in our success we shared our profit by paying the dividend last year in the amount of PLN 64.7 million, equal to 57.7% of the consolidated net profit earned in 2015.

Our 3,400 employees made a huge contribution to the particularly successful year. We would like to take this opportunity to especially thank them for their efforts in building value of the Pfleiderer Group.

Yours faithfully,

Michael Wolff
President of the Management Board

OUR VISION – FOR AN INTEGRATED PFLEIDERER GROUP IN EUROPE

- We are a fully integrated wood panel manufacturer with profitable growth and with value generation.
- We offer State-of-the-art decorative surface competence providing value and differentiation to customers.
- We perform Operational excellence in Supply Chain and Services to customers in the future industry, architects and retail sector.
- We focus on ecological and social sustainability. Sense of responsibility from the basis of our culture which is based on trust.
- We have technology capability and close cooperation with reliable partners to technological change.

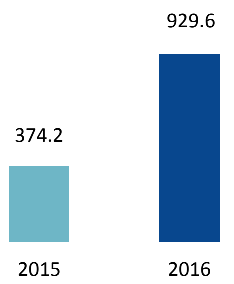
PFLEIDERER GROUP IN 2016 AT A GLANCE

Good set of financial results supported by favorable market conditions

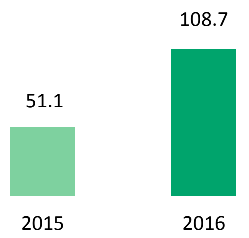
11.7%	A record EBITDA margin thanks to improvement of the operational efficiency over the last years
11.7%	Growth of the Group's sustainable EBITDA - to EUR **147.8** million
EUR 52.0 million	Capital Expenditures - continued investments on strategic projects with attractive payback
48.4%	Increase of the Pfleiderer Group S.A. market capitalization in 2016

The financial information of the FY 2016 represents consolidated data of the Pfleiderer Group S.A. Group.
The financial information of the FY 2015 represents consolidated data of the Pfleiderer Grajewo S.A. Group.
*2015 adjusted EBITDA including the EBITDA of the West Core segment.

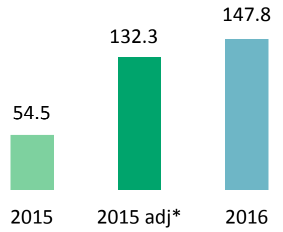
REVENUES
(EUR M)



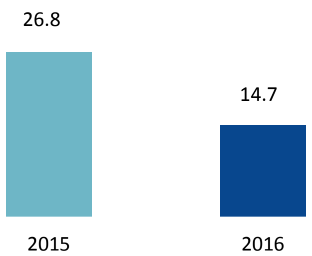
REPORTED EBITDA
(EUR M)



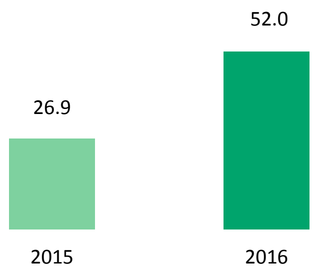
ADJ. EBITDA
(EUR M)



NET PROFIT
(EUR M)



CAPEX
(EUR M)



KEY EVENTS AND ACHIEVEMENTS OF THE PFLEIDERER GROUP IN 2016

Q1, 2016

PFLEIDERER GRAJEWO S.A. (CURRENTLY PFLEIDERER GROUP S.A.) SUCCESSFULLY COMPLETES THE ACQUISITION OF PFLEIDERER GMBH AND CREATES THE NEW PFLEIDERER GROUP

On January 19, 2016 following the private placement of the existing shares in the Company, the Company's shares held by Pfleiderer Service GmbH (PSG) were transferred to Atlantik pursuant to the agreement on the sale of the Company's shares executed on October 5, 2015 between Atlantik and PSG, as amended on November 25, 2015. On January 19, 2016 the Company and Atlantik executed an agreement, pursuant to which the Company acquired the sole share in Pfleiderer GmbH representing 100% of the Pfleiderer GmbH share capital. The acquisition constitutes the final element of the process of reorganization of the Pfleiderer capital group, as a result of which the Company became the dominant company of the whole Group.

MOODY'S ASSIGNS A B1 CORPORATE FAMILY RATING

On January 26, 2016 Moody's Investors Service has assigned a B1 corporate family rating (CFR) and a B1-PD probability of default rating (PDR) to the Company, the new ultimate top company of Pfleiderer Group, upon its successful capital increase through a public offering and reverse takeover of Pfleiderer GmbH financed by the net proceeds from a capital increase, completed on 19 January 2016. The B1 corporate family rating (CFR) assigned to the Company reflects the change in Pfleiderer Group corporate and legal structure following the completion of the transaction and the Company's intention to reduce the overall indebtedness of the combined Group. The outlook on all ratings is positive.

REGISTRATION OF SERIES E SHARES OF PFLEIDERER GRAJEWO S.A. (CURRENTLY PFLEIDERER GROUP S.A.)

Pursuant to Resolution of the Management Board of the National Depository for Securities (the "NDS") of January 27, 2016, the Management Board of the NDS resolved to register 15,077,007 series E ordinary bearer shares of the Company in the depository of securities maintained by the NDS, provided that the New Shares are introduced to trading on the same regulated market, on which other shares in the Company have been introduced.

S&P ASSIGNS ITS 'B' CORPORATE CREDIT RATING TO PFLEIDERER GRAJEWO S.A. (CURRENTLY PFLEIDERER GROUP S.A.)

On January 29, 2016 Standard & Poor's Ratings Services ("S&P") assigned 'B' corporate credit rating to the Pfleiderer Grajewo S.A. and raised to 'B' from 'B-' its long-term corporate credit rating to Pfleiderer GmbH. The outlook on both ratings is positive. The rating on the Company is based on S&P's assessment of the consolidated Pfleiderer group, while the rating on Pfleiderer GmbH reflects its position as a core subsidiary of the Company. The upgrade follows successful capital increase of the Company through a public offering and reverse takeover of Pfleiderer GmbH financed by the net proceeds from a capital increase, completed on 19 January 2016. S&P considers the transaction as credit positive as it improves the financial risk profile of the consolidated Pfleiderer group and leads to a more balanced shareholder structure.

Q2, 2016

DECISION REGARDING COMMENCEMENT TO THE PROCESS OF INTERNAL REORGANIZATION OF THE CAPITAL GROUP OF PFLEIDERER GRAJEWO S.A. IN POLAND (CURRENTLY PFLEIDERER GROUP S.A.)

On June 1, the Management Board has made a decision regarding commencement and making basic assumptions of the previously announced internal reorganization of the capital group of Pfleiderer Grajewo S.A. in Poland. The process was the implementation of the previously announced by the Company organizational and operational integration of Core East and Core West in order to continue building multi-level cooperation within the Group to unlock the potential for further synergies from joint operations. The main purpose of conducting the Reorganization was reorganization of the ownership and organizational structure of the companies from the Group through, inter alia, transfer of selected functions and processes between the companies from the Group, in order to simplify the ownership and organizational structure of the Group and increase its operational effectiveness.

ENDING THE NEGOTIATIONS REGARDING PURCHASE OF CHIPBOARD MANUFACTURING BUSINESS IN GERMANY WITHOUT SIGNING THE PURCHASE AGREEMENT

On June 28, 2016 the negotiations between subsidiary of the Company, i.e. Pfleiderer Holzwerkstoffe GmbH and Nolte SE regarding purchase by PHW of Germersheim-based chipboard manufacturing business ended without signing by PHW the purchase agreement.

DIVIDEND PAYOUT FOR 2015

On 29 June 2016 the Ordinary General Shareholders Meeting of the Company adopted a resolution concerning distribution of net profit for the period from January 1st to December 31st 2015, providing for the dividend payment for the Company's shareholders in the amount of PLN 64,701,007 representing PLN 1.00 per each Company' share. All of the Company's shares were covered by the dividend, i.e. 64,701,007 shares. The remaining part of the proft was passed to the supplementary capital. According to the adopted resolution, the dividend date was July 15, whereas the dividend payment date was scheduled for July 29.

Q3, 2016

REGISTRATION OF CHANGE OF THE BUSINESS NAME AND REGISTERED SEAT OF THE COMPANY

On 30 September 2016, the District Court in Białystok, entered into the register of entrepreneurs of the Company the change in scope of the business name and registered seat of the Company and amendments to the Company's articles of association. Due to the above registration, the business name of the Company has been changed from "Pfleiderer Grajewo Spółka Akcyjna" to "Pfleiderer Group Spółka Akcyjna" and the registered seat has been changed from Grajewo to Wrocław. The above changes have been effected pursuant to resolution No. 9 of the Ordinary General Shareholders Meeting of the Company of 29 June 2016.

Q4, 2016

EXECUTION OF COMMITMENT LETTERS IN RESPECT OF THE REFINANCING OF EXISTING INDEBTEDNESS

On 8 December 2016 the Company signed with a group of financial institutions commitment letters in respect of a senior secured credit facilities to refinance the EUR 321,684,000 7.875% Senior Secured Notes issued by Pfleiderer GmbH on 7 July 2014 as well as the facilities granted on the basis of the EUR 60 million and PLN 200 million revolving facilities agreement.

On 28 February 2017, based on the current strong and favorable conditions in the institutional loan and bond markets, the Management Board of Pfleiderer Group S.A. informed that it has refined its refinancing plans in respect of the existing EUR 321,684,000 7.875% Senior Secured Notes issued by PCF GmbH (formerly Pfleiderer GmbH) on 7 July 2014 and the existing EUR 60 million and PLN 200 million revolving facilities.

Events subsequent to the end of the reporting period

COMMERCIAL PAPERS ISSUANCE

After 31 December 2016, Pfleiderer Group S.A. has rolled over commercial papers in the form of short-term notes on 17 January 2017, 15 February 2017 and 15 March 2017 with a view to optimising the Company's financial liquidity management. The notes were issued under the Note Issue Programme Agreement executed on 22 July 2003 with Bank PEKAO S.A. The notes were issued in accordance with the Polish Bonds Act of 29 June 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Prospan S.A.

CHANGES IN SHAREHOLDER STRUCTURE

For information regarding changes in shareholder structure after the end the reporting period see point 4.1.

CHANGES IN THE MANAGEMENT BOARD

On 2 March 2017 the Supervisory Board of Pfleiderer Group S.A. appointed Thomas Schäbinger as President and Chief Executive Officer (CEO). Mr. Schäbinger succeeds Michael Wolff, Pfleiderer Group's President and CEO who does not wish to extend his contract which expires in December 2017 and who will therefore leave the Group.

Accordingly to ad hoc reports no. 19/2017 and 20/2017 changes are effective as of 1 June 2017.

STANDARD & POOR'S ASSIGNS A B1 CORPORATE FAMILY RATING

On January 20, 2017, Standard & Poor's Ratings Services raised long-term corporate credit rating on Poland-based wood panels producer Pfleiderer Group S.A. and its wholly-owned Germany-based subsidiary PCF GmbH to 'B+' from 'B' with positive outlook.

LAUNCH OF REFINANCING

On 20 March 2017, Pfleiderer Group S.A. announced that they mandated Credit Suisse International, Deutsche Bank AG, London Branch and Goldman Sachs Bank USA as Mandated Lead Arrangers and Joint Bookrunners to arrange €450.0 million senior secured credit facilities comprising (i) a €350.0 million 7-year covenant-lite term loan B facility and (ii) a €100.0 million 5-year revolving credit facility. The proceeds from the Facilities are intended to be used to redeem the existing €321,684,000 7.875% senior secured notes issued by PCF GmbH, to refinance the existing senior secured revolving credit facility and to fund related transaction fees, redemption premium and expenses as well as general corporate purposes and working capital requirements. Subject to the Facilities being completed, Pfleiderer currently intends the redemption of the Notes to occur on or after August 1, 2017 at a redemption price of 101.969%.

MOODY'S UPGRADED PFLEIDERER'S CFR (CORPORATE FAMILY RATING) TO BA3 WITH STABLE OUTLOOK

On 22 March 2017 the Moody's rating agency upgraded Pfleiderer's CFR (corporate family rating) from B1 to Ba3 with stable outlook. Moody's has assigned provisional (P)Ba3 instrument ratings to the proposed EUR 350 million senior secured term loan B (TLB, 7-year) and EUR 100 million equivalent senior secured revolving credit facility (RCF, 5-year) to be raised by PCF GmbH, a direct subsidiary of Pfleiderer Group S.A.

On 7 April 2017, Pfleiderer Group S.A. announces that it has successfully priced and allocated a €350.0 million 7-year covenant-lite term loan B facility carrying an interest margin of 325bps (Euribor floor: 0.75%) and 99.0 OID. The new €100.0 million 5-year revolving credit facility will have an interest margin of 300bps (Euribor floor: 0%).

S&P GLOBAL RATINGS AFFIRMED ITS 'B+' LONG-TERM CORPORATE CREDIT RATING ON PFLEIDERER GROUP S.A.

On March 24, 2017, S&P Global Ratings affirmed its 'B+' long-term corporate credit rating for Pfleiderer Group S.A. and its wholly owned Germany-based subsidiary PCF GmbH. The outlook remained positive. At the same time, S&P assigned 'B+' issue rating to the proposed €350 million senior secured loan due 2024 and the €100 million revolving credit facility (RCF) to be issued by PCF GmbH.

KEY INFORMATION ABOUT THE GROUP

1. KEY INFORMATION ABOUT THE GROUP

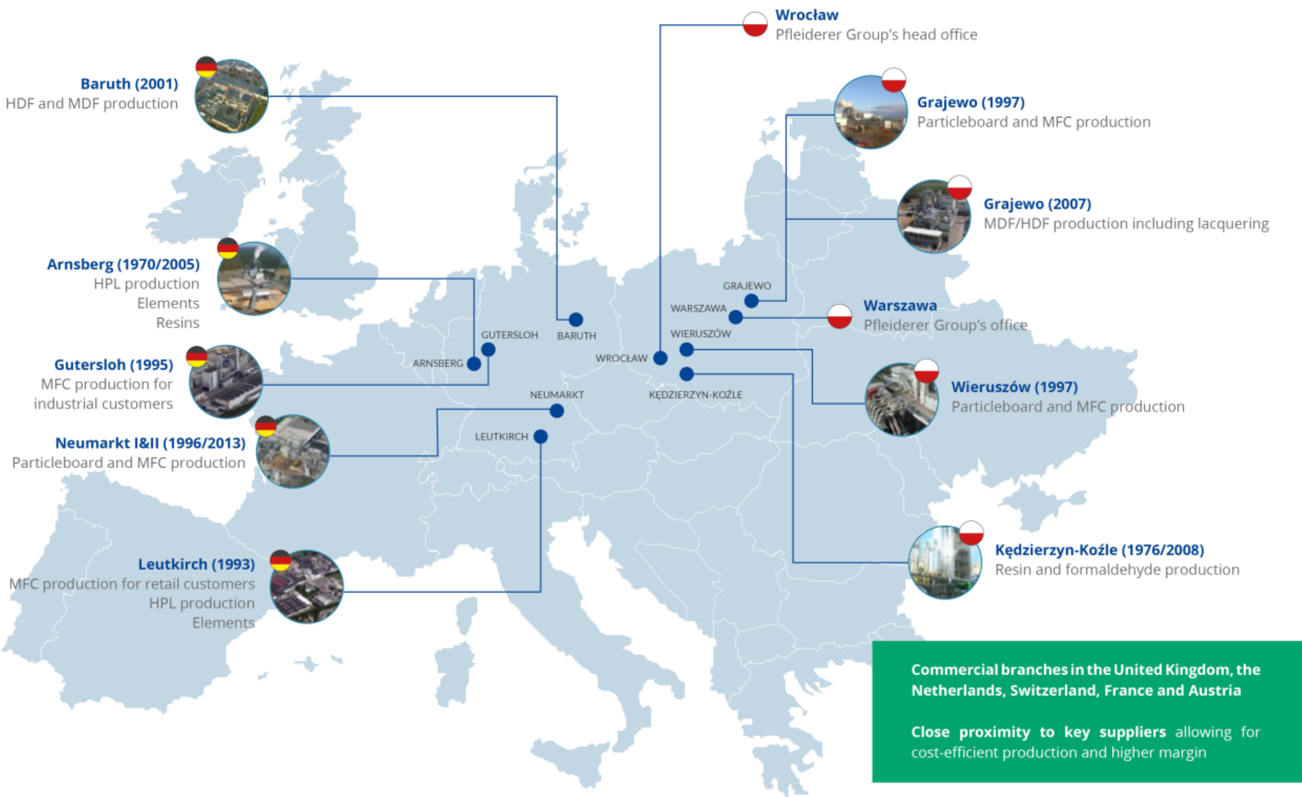
1.1. BUSINESS PROFILE – ACTIVITIES OF THE GROUP

The Pfleiderer Group, with 122 years of experience, is a leading European manufacturer of wood based products, specializing in the production of materials in the furniture industry, the interior industry and construction.

Pfleiderer Group provides furniture boards, kitchen worktops, HPL laminates and artificial wall coverings to the biggest furniture manufacturers in Poland and DACH (Germany, Austria and Switzerland) and several thousand medium and lesser companies of furniture industry. Pfleiderer products are known across the Eastern and Southern Europe, and Scandinavia. The company is headquartered in Wrocław (Poland) and operates nine manufacturing facilities located in Poland and Germany as well as commercial departments in the UK, the Netherlands, Switzerland, France and Austria. Sustainability is an integral part of our corporate strategy, Pfleiderer sees it as a matter of course to conserve energy and raw materials, reduce emissions and produce environmentally friendly products.

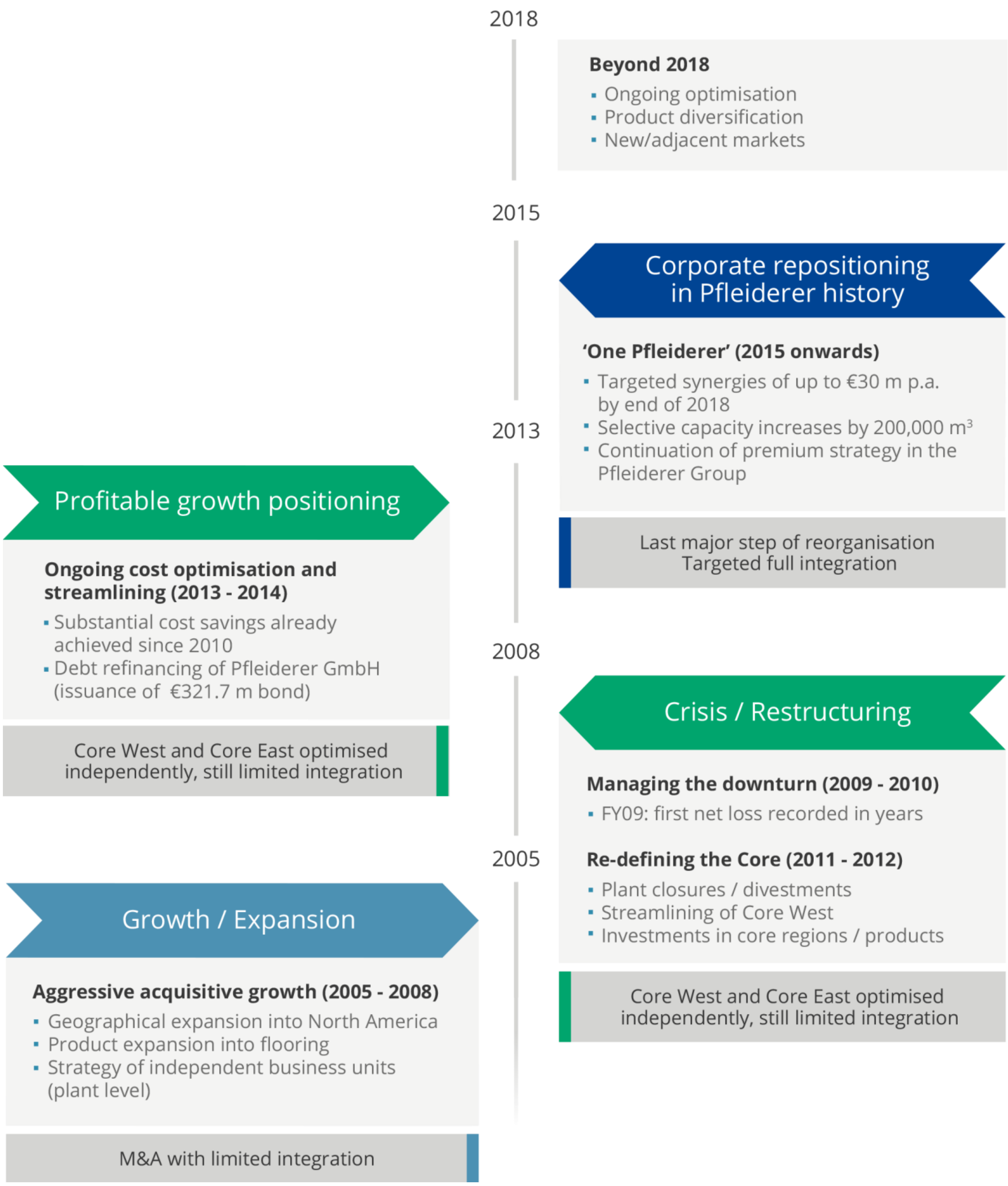
The Pfleiderer Group consists of production plants of various profiles of the activity.

FIGURE 1: PFLEIDERER GROUP ENTITIES



The history of the company is a history of pivotal moments, made to retain a leading position in the wood based panel industry and construction market – it began more than 120 years ago.

FIGURE 2: PFLEIDERER GROUP CORPORATE HISTORY



Pfleiderer Group has developed an extensive product range, biased towards value-added products.

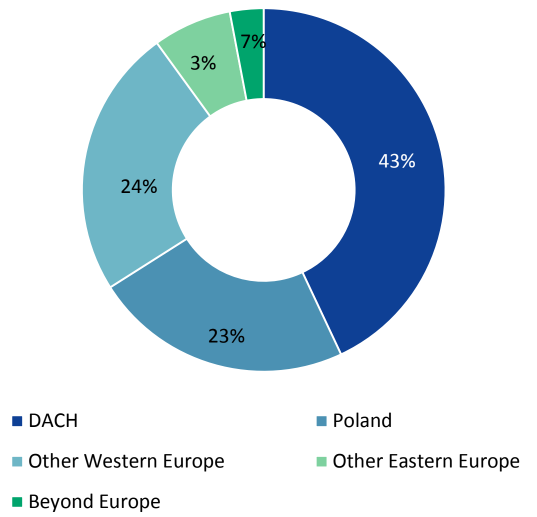
FIGURE 3: PRODUCT RANGE

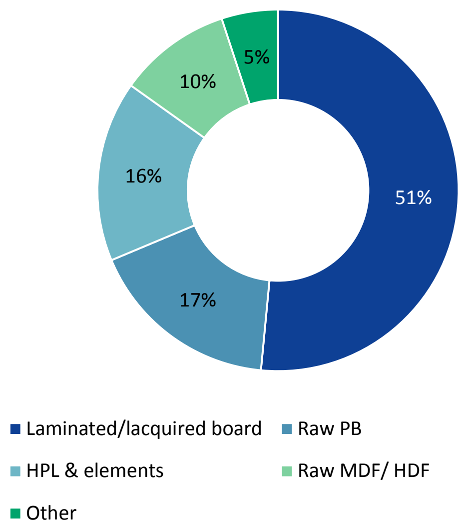
		VALUE – ADD PRODUCTS		BASIC PRODUCTS [2]		OTHER
		MELAMINE-FACED CHIPBOARD (MFC)	HIGH PRESSURE LAMINATES (HPL)/ELEMENTS	RAW PARTICLEBOARD (RAW PB)	MEDIUM-DENSITY /HIGH-DENSITY FIBERBOARD (MDF/HDF)	OTHER PRODUCTS
PRODUCTS						ELECTRICITY[1], RESIN SILEKOL, IMPREGNATION PAPER,EDGES AND PAPER FOILS
% OF SALES (2016)		65%		25%		10%
MANAGEMENT'S VIEW OF PROFITABILITY		HIGHER AND MORE STABLE	EVEN HIGHER AND MORE STABLE	LOWER	EVEN LOWER	
MAIN APPLICATIONS	FURNITURE & INTERIORS	✔	✔	✔	✔	
	CONSTRUCTION	✔	✔	✔	✔	
	SHOP FITTING	✔	✔	✖	✖	
	LAMINATE FLOORING	✖	✖	✖	✖	

[1]Electricity generated as by-product of cogeneration plants and sold through the market
[2]Basic products relate to commodity products (i.e. raw particleboard, medium-density fiberboard and high-density fiberboard)
Source: Pfleiderer, Association of German Timber Industries (VHI)

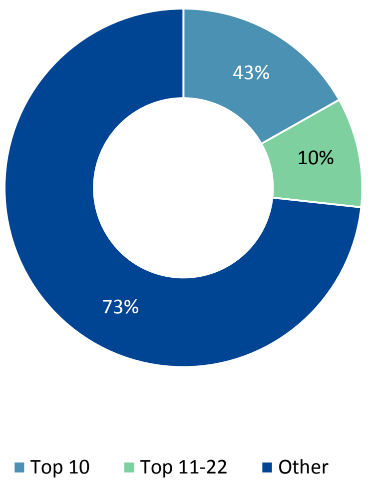
FIGURE 4: REVENUE AND CUSTOMER SPLIT

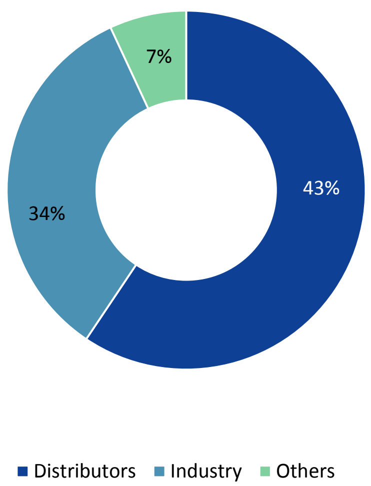
REVENUE SPLIT 2016





CUSTOMER SPLIT 2016





1.2. STRUCTURE OF THE GROUP

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

As of the 26 April 2017, the structure of the Capital Group is as follows:

FIGURE 5: STRUCTURE OF THE CAPITAL GROUP AS OF 26 APRIL, 2017

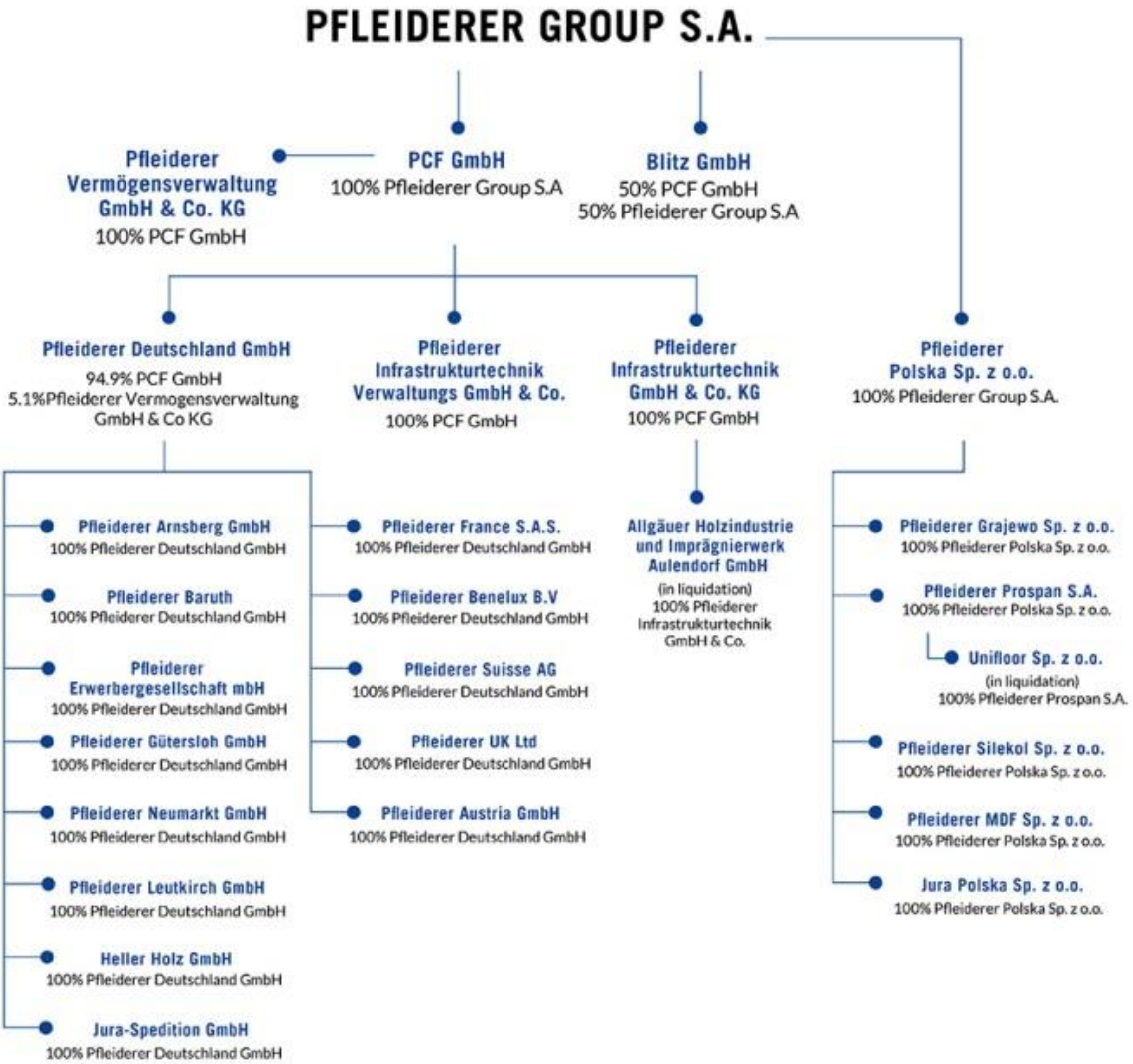


TABLE 1: SUBSIDIARIES OF THE PFLEIDERER GROUP

Eastern Europe		Dec. 31, 2016	Dec. 31, 2015
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.	Wrocław	100.00%	100.00%

Pfleiderer 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		**Dec. 31, 2016**	**Dec. 31, 2015**
PCF GmbH	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Deutchland 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.	Macclesfiels, United Kingdom	100.00%	0.00%
Pfleiderer Vermögensverwaltung GmbH & Co. KG	Neumarkt, Germany	100.00%	0.00%
Pfleiderer Infrastrukturtechnik GmbH & Co. KG (in Insolvency)	Dusseldorf, Germany	100.00%	0.00%
Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH (in Insolvency)	Dusseldorf, 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%

1.2.1. PFLEIDERER GROUP COMPANIES AND THEIR BUSINESS ACTIVITIES

The Group consists of the holding company, which is responsible for governing the Pfleiderer Group, operating companies and production companies.

The Parent Company and holding company of the Group is Pfleiderer Group S.A., registered in Poland, with its shares being publically traded.

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

On 30 September 2016 the District Court of Białystok registered a change in the Company's name and registered office as well as its bylaws. The Company's name was changed from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. The Company's registered office was moved from Grajewo to Wrocław. The above mentioned changes were conducted based on resolution no 9 of Ordinary General Shareholder Meeting which took place on 29 June 2016.

The Company's headquarters are located in Wrocław, at Strzegomska St. 42AB.

In accordance with the Polish Classification of Business Activities, the Parent Company's business is registered under No. 1621Z. The business activity of Pfleiderer Group S.A. is manufacture and veneering of wood and wood-based products, paper refine, domestic and abroad trade, rendering industrial services related to its core business, as well as other services based on resources held. The Company conducts holding services and other financial services.

The list of Group's entities with their activities (at the time of publication of the report):

The business of the Eastern European entities consists of:

Pfleiderer Group S.A., Wrocław, Poland, the Parent Company being a holding company of Pfleiderer Group:

Pfleiderer Polska Sp. z o.o., Wrocław, 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: Strzegomska St. 42AB, 53-611 Wrocław, Poland

Principal business activity:

- central Polish sale, supply and service company.

Pfleiderer 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: 7191568458

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.

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

Pfleiderer 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, XX Division of the National Court Register, under entry no. KRS 0000042082 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.

Pfleiderer 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,

- 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.

The business of the Western European entities consists of:

PCF 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 Deutschland 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 companies,
- 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,
- 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 Birkenpfuhlheide 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.

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 Austria GmbH

A company entered on 16 March 2017 in the Commercial Register of Republic of Austria, under register number FN 468194 x.

Registered address: Am Modenpark 10, 1030 Wien

Principal business activity:

- sale of engineered wood.

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

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

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.

1.2.2. DESCRIPTION OF CHANGES IN THE STRUCTURE OF THE CAPITAL GROUP 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 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 PFLEIDERER" aimed at creation a fully integrated Capital Group.

Internal reorganization of the capital group in Poland

Pfleiderer Group S.A. performed in a course of 2016 year an internal reorganization of the capital group in Poland. The main purpose of the reorganization was to simplify the ownership and organizational structure of the Group as well as to increase the operational effectiveness.

The reorganization resulted in achieving a three layer organizational structure of the Group in Poland where:

- Pfleiderer Group S.A. is a holding company, maintaining the position of the ultimate dominant entity of the entire Group,

- Pfleiderer Group S.A. subsidiary, i.e. Pfleiderer Polska Sp. z o.o. conducts sale, purchase and administration activity for and on behalf of the remaining Group companies,
- remaining Polish companies of the Group, whose shares are held by Pfleiderer Polska Sp. z o.o., conduct (as a rule) production activity only.

Within the reorganization, inter alia the following actions were performed:

1) Transfer, in a form of the contribution in-kind, of Company's enterprise, covering the production and sale and shared services functions, to newly established company Pfleiderer Grajewo Sp. z o.o. Transfer of the Company's enterprise to Pfleiderer Grajewo Sp. z o.o. was performed on 31 August 2016.
2) Change of the name of the Company from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. and a change of registered seat from Grajewo to Wrocław. The changes were effective beginning from 30 September 2016.
3) Division through separation in the meaning of Article 529 § 1 item 4 of Polish Commercial Companies Code of Pfleiderer Grajewo Sp. z o.o. As a result of division the sale and shared services functions were transferred from Pfleiderer Grajewo Sp. z o.o. to Pfleiderer Polska Sp. z o.o. Division of Pfleiderer Grajewo Sp. z o.o. was registered with National Court Register on 29 December 2016.
4) Contractual transfer of sales and shared service functions from Pfleiderer MDF Sp. z o.o. and Pfleiderer Prospan S.A. to Pfleiderer Polska Sp. z o.o. The transfer was performed on 29 December 2016.

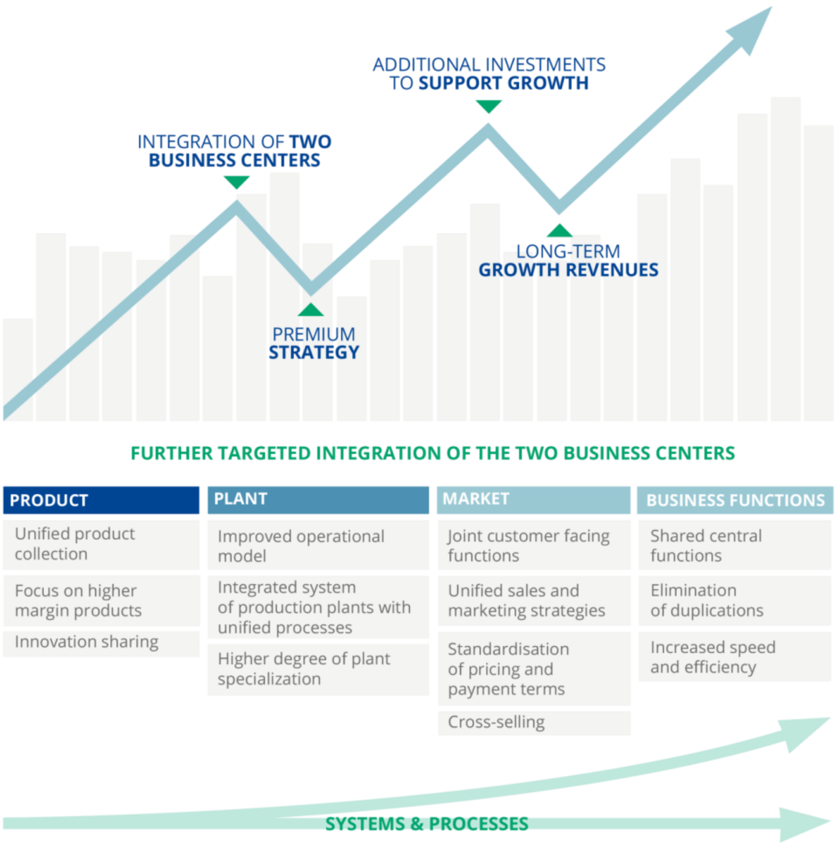
On 29 December 2016 there was achieved the target three layer structure of entire Pfleiderer Group with Pfleiderer Group S.A., as the holding company with the shares listed on Warsaw Stock Exchange, with Pfleiderer Deutschland GmbH and Pfleiderer Polska Sp. z o.o. as the sales companies and with production plants acting in a form of separate legal entities.

Beginning from 1 January 2017 all sales activities of Pfleiderer Group are concentrated solely in the two sales entities. Pfleiderer Polska Sp. z o.o., which is responsible for all customers allocated to the sales territory "East" and Pfleiderer Deutschland GmbH, which is responsible for all customers allocated to the sales territory "West".

1.3. STRATEGY

The Pfleiderer 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.

FIGURE 6: PFLEIDERER GROUP STRATEGY



1.3.1. INVESTMENT PROGRAM

Feasibility of the Group's investment plans 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. In 2016, the Pfleiderer Group incurred capital expenditure of **EUR 52.0 million** (including advances).

TABLE 2: CAPEX 2016 – MAIN PROJECTS AT THE GROUP LEVEL

Investment	Capex	Rational	Expected outcome
4-Pack Project (Grajewo) • Increase of lacquering capacity by about 30% • Sanding line • Cut to size • Customization	EUR 10.0 m	Additional sales and margin by shifting commodities into value-added products	• Sales increase by EUR 17-20 m • Additional margin EUR 1.5-2.0 m in 2017
Worktop line (Wieruszów)	EUR 3.3 m	Added value products (launched in March 2016)	Sales increase by EUR 4.5 m and margin EUR 1.3-1.6 m
Dynasteam (Wieruszow)	EUR 3.0 m	Extension of capacity by 50.000 cbm, launched in October 2016	EUR 6 m revenue and EUR 1.2 m margin in 2017
Sanding Line (Neumarkt)	EUR 5.8 m	More flexibility in production, launch August 2017	EUR 2.0 million revenue

Pfleiderer Group is developing attractive investments, which will support further growth. Key projects for 2017 are presented below.

TABLE 3: CAPEX 2017 – MAIN PROJECTS AT THE GROUP LEVEL

Investment	Capex	Rational	Expected outcome
Sanding Line (Neumarkt)	EUR 5.8 million	More flexibility in production (launch August 2017)	EUR 2.0 million EBITDA
Recycled wood	EUR 9.5 million	Increasing consumption of recycled wood fibre and reducing cost for wood (launch end of 2017)	EUR 5.0 million EBITDA
Lacquering line (Leutkirch)	EUR 12.0 million	New functional surface technology, new high gloss and dull surfaces (launch Q1, 2018)	EUR 8.4 million EBITDA
Commercial Growth Strategy	EUR 11.5 million	Growth of current & new products and exploring new markets; securing & increasing production capacity; development of resins and quality improvement (launch H2 2018)	EUR 6.4 million EBITDA

Stand alone

Investments and overhauls in Pfleiderer Group S.A. in 2016

To ensure proper functioning on the market and fulfilling of increasing customer demand, the Company must maintain its plants and equipment in the best technical and technological condition. Between January and August 2016, the Company spent PLN 28,148 thousand on repairs and maintenance of plant and equipment (including advances on fixed assets), the plan was PLN 20,038 thousand. The Company's efforts in this respect resulted in gradual improvement of product quality and higher production capacity.

The largest projects were:

Implementation of ONE SAP*	PLN 15,883 thousand
Water collector	PLN 3,246 thousand
Offices in Wrocław	PLN 1,178 thousand
KT press matrices	PLN 1,040 thousand
Capitalized costs of major overhaul of fixed assets	PLN 4,729 thousand
Other investment projects below PLN 1m each	PLN 2,072 thousand

*Costs capitalized on ONE SAP project have been transferred within contribution in kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016 and subsequently within division through separation of Pfleiderer Grajewo Sp. z o.o. to Pfleiderer Polska Sp. z o.o. on 29 December 2016.

Due to the contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Polska Sp. z o.o., no capex is planned in the Company for 2017.

1.3.2. MARKETING ACTIVITIES IN 2016

In 2016, the Pfleiderer Group marketing activities were mainly focused on the preparation of launching ONE COLLECTION in January 2017. ONE COLLECTION is an unified offer to all markets with the following segments:

- Product offer consisting of Raw Boards, Melamine Faced boards as well as HPL and Elements,
- Redesigned collection (portfolio of decors) including “color worlds”,
- New structures as well as structure strategy up to 2020,
- New communication package including newly designed booth for fairs,

- New corporate design for the entire Pfleiderer Group,
- Redesigned Marketing Services program.

In addition to this unified offer the Group's marketing prepared the following areas around it:

- Unified boards size for MFC (2.10m width in East),
- New centralized impregnation strategy,
- Newly defined stock programs,
- Standardized SLA (Service Level Agreements).

In the forefront of the official market launch in January 2017, Pfleiderer organized preview events for customers and employees to present the new collection and all mentioned additional activities. Over 700 participants joined these very successful events: Warsaw and Frankfurt in October 2016 and gave us thoroughly positive feedback.

Successful work of the marketing mix program in the last years has been very much appreciated by well-known institutes who gave the following rewards to Pfleiderer Group:

TABLE 4: REWARDS GIVEN TO PFLEIDERER GROUP

2016
"German Design Award" for textures Xtreme and Meandra by Rat für Formgebung
"German Design Award" for textures SolidColor Xtreme, Mattlack and Natural Wood by Rat für Formgebung
"Iconic Award" for SolidColor Xtreme by Rat für Formgebung
"IF Award Discipline interior architecture" for the Pfleiderer Fair stand (booth) at the BAU 2015
2015
"German Design Award " for the texture HighGloss from Rat für Formgebung Service GmbH
„DDS Top Website" Website by special interest title dds Möbel und Ausbau
"Blauer Engel" for products DecoBoard and LivingBoard from RAL GmbH
"Iconic Award" for textures Meandra and Mattlack by Rat für Formgebung
„Interzum Award" for texture Meandra by Design Zentrum Nordrhein Westfalen

Plans and development prospects for 2017

In 2017, the Group's marketing focus is mainly on official rollout of ONE PFLEIDERER and ONE COLLECTION with following activities:

- Exhibiting at leading fairs:
  - BAU (Munich) January incl. press conference,
  - EuroShop (Düsseldorf),
  - Arena design@ MEBLE (Poznan),
  - INTERZUM (Cologne).
- Launch of program in all relevant markets and segments
- Special events "INSPIRATION DAYS" in countries' of the Core West and East to support the furniture industry segment in presenting actual décor trends, developments and novelties for 2018.

1.3.3. INNOVATIONS

In the light of dynamically changing environment, growing expectations of the clients and stronger competition, Pfleiderer Group is constantly striving for improving its offer and internal processes. The Group believes that research and development is one of the main factors of further development and focuses on the production of innovative and sustainable high-quality products. One part of the Group`s strategy is innovative projects activities. It defined the scope of needed activities in product development for the next 5 years. Established innovation processes and the criteria that guide the interdisciplinary team to choose the ideas to should be implemented.

All of this activities are managed at the central level and assure that selected ideas are consequently enforced and guided in a standardized way at the Group level. To achieved that the responsible organization structure was as well established.

Customers are jointly engaged at various stages in innovation processes, from collecting ideas through prototype until the final product.

Additionally, innovation workshops are held with selected customer, which in creative ways allows thinking ”out of the box” and are the source of collecting ideas for new products.

We believe that only with insight from our customers’ needs we are able to create the perfect product. Sometimes a small optimization of the existing product is sufficient and sometimes there is a need to create a completely new product. The crucial point is the need for customer.

The Group has taken actions with external partners such as research institutes and universities to increase the efficiency of innovative projects. This allows us to use know-how from different specializations and open the possibility to adapt existing solutions outside the wood industry.

At the same time, activities were taken to encourage the employees to submit their ideas and innovative solutions. We organized “Innovation Day”, where representatives of different departments had have the opportunity to present the most interesting ideas.

In the following year, the Group plans to implement common platform to collect and share ideas within organization. In overall, the Group plan to spend on R&D external expenditures approx. EUR 0.7 million per annum.

1.4. MARKET POSITION AND CONSTRUCTION MARKET OVERVIEW

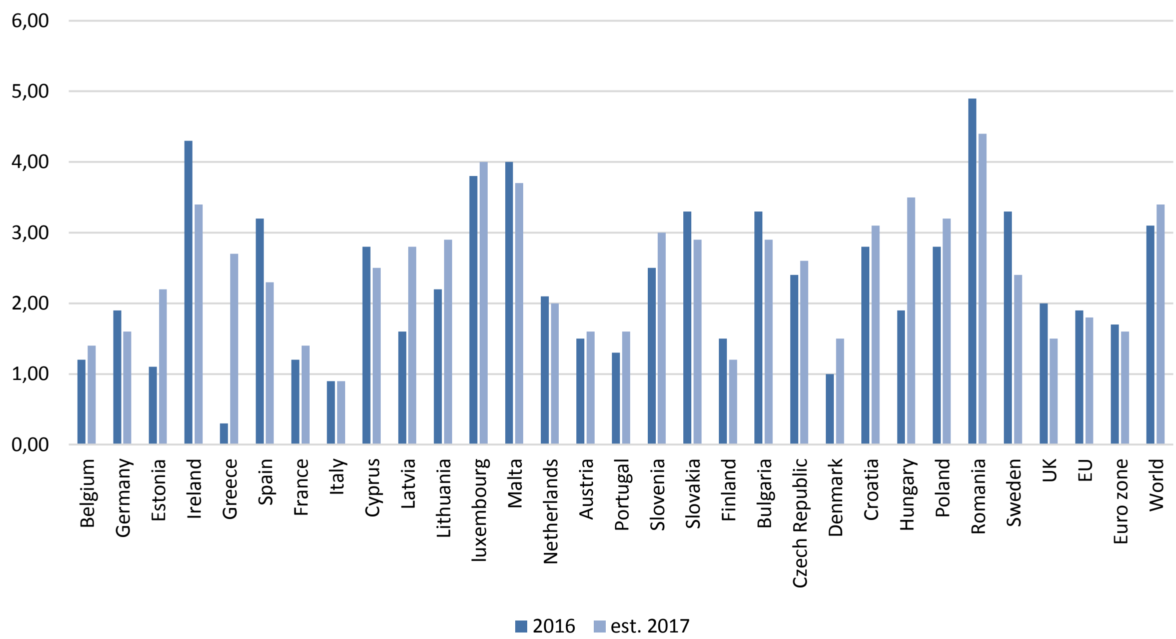
Macroeconomic situation in 2016

According to the European Commission’s latest forecasts[3], the Eurozone’s economic expansion will reach 1.6 per cent this year and accelerate to 1.8 per cent in 2018, compared with 1.7 per cent in 2016. The forecast is 0.1 percentage point higher than EurCom’s previous outlook from the fall of 2016 and 0.2 percentage point above the International Monetary Fund’s forecast for next year. This steady but moderate expansion should remain driven by domestic demand. The global economy recorded growth of 3.0 per cent in 2016 and is projected to strengthen this year (+3.4 per cent) and next (+3.6 per cent). After difficult 2016, in which the European economy had to cope with numerous international and domestic challenges including the lowest pace of global and trade growth since 2009, geopolitical tensions, stressed banking sectors, UK’s vote to leave the EU, and a mounting backlash against globalization, has proved to be resilient and has stayed the course of economic growth and job creation. This resilience has been supported by a number of well- known favorable factors, including relatively low oil price, the past depreciation of the euro and a broadly neutral fiscal policy. Private consumption and investments have remained the main growth driver while inflation has returned to the common market and rising debt.

Pfleiderer Group operations are supported by favorable market conditions.

[3] Winter 2017 Economic Forecast, EurCom

FIGURE 7: GDP GROWTH IN 2016 AND EST. 2017 (%)



The pace of growth in construction investment is, however, expected to have increased in the euro area in 2016 thanks to low mortgage rates and improved access to loans for house purchases. The recent rise in construction output and house prices also supports the expectation that the adjustment in the housing sector is ending. Investment is expected to accelerate somewhat next year thanks to low financing costs, the improving global demand outlook, high capacity utilization, and recovering profit margins. A growing number of projects approved under the umbrella of the Investment Plan for Europe are also expected to move to the implementation phase, boosting both public and private investment. Private consumption was the principal contributor to growth in 2016 and is expected to remain the main growth driver over the forecast horizon. Households should indeed continue benefitting from employment growth and a rise in compensation, whilst increases in house prices are set to generate positive wealth effects. However, the expected increase in inflation will dampen the growth of real disposable incomes. Household saving rates are expected to remain broadly stable as the pass through to savings of past oil price-related income gains should come to an end, while uncertainty could lead to precautionary savings.

Accordingly to EurCom's forecast in the coming two years the fastest-growing economies will include Luxembourg (3.9 per cent and 4.0 per cent in 2017 and 2018 respectively), Malta (3.7 per cent each), Ireland (3.4 and 3.3 per cent), and Slovakia, Slovenia, Greece, and Latvia (3 per cent annually on average). The weakest economic situation will continue to trouble the "old EU" states - Italy (0.9 and 1.1 per cent), Belgium (1.4 and 1.6 per cent), Germany (1.6 per cent and 1.8 per cent) and France (1.4 per cent and 1.7 per cent). The states remain troubled with consequences of excessive public debt, which decreases fiscal policies' flexibility and making high debt servicing costs translate into significant tax burden strangling growth.

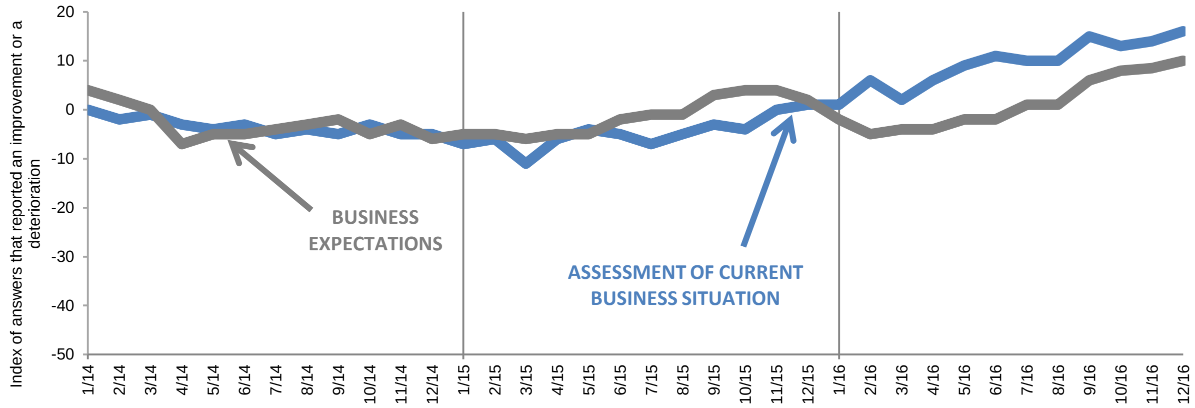
Economic growth in Poland in 2016 slowed down versus the previous year and amounted to about 2.7%, with the final quarter of the year being probably the weakest. The slowdown was primarily due to a reduction in investments, which were undermined by low absorption of EU funds in the interim period. Public infrastructure investments were affected in particular, but private investments decreased as well. Economic growth was also undermined by the weakening of foreign trade, which was caused by a somewhat slower global growth. Private consumption was the main driver of growth, supported by favorable labor market situation and payments under the 500+ child benefit program.

2016 was yet another year, characterized by elevated volatility in financial markets. However, since the autumn global financial markets have rediscovered some optimism by improving macro-economic data, a pick-up inflation and expectation of pro-growth policy in the US. In Europe, market perception about economic outlook is improving, asset purchases by the ECB are sustained and expectation about US policy have led equity markets to rise.

Business climate in construction

For the last two years construction business climate indicator in Germany has been growing, hitting record-breaking results at the end of 2016. Moreover, it's expected to improve further in the months ahead. Expectations of construction business representatives were a little bit less optimistic than assessment of current situation, nevertheless for the most time of 2016 with positive tendency as well.

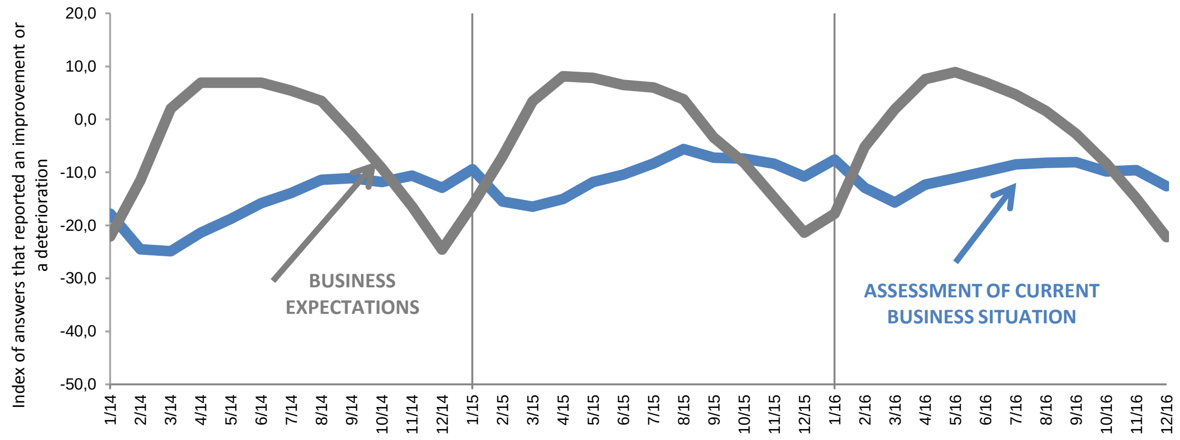
FIGURE 8: BUSINESS CLIMATE IN CONSTRUCTION - GERMANY



Source: Ifo

In Poland, for the last two years, business climate in construction is stable. The stability one can see in seasonal changes, repeated every year - prognosis for the future business are always the lowest at the end of the year, as traders are able to predict there will be a decline in their business in the first quarter of the new year (which might be related with awaiting time for the opening of tenders). In the first three months of each year assessment of current business situation is the lowest but it improves with upcoming months.

FIGURE 9: BUSINESS CLIMATE IN CONSTRUCTION - POLAND



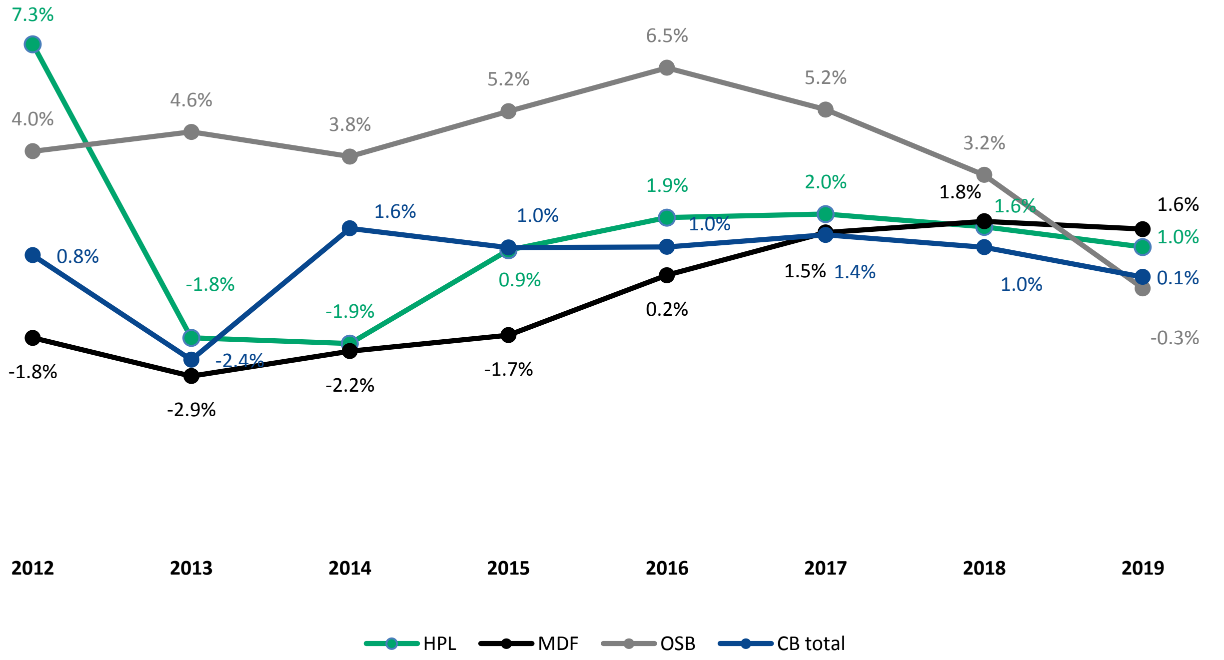
Source: GUS

Market dynamic

Pfleiderer strongly builds its position in furniture and construction market. The last one includes not only building residential and non-residential objects, but also interior design. In terms of product portfolio the reference points are chipboard, laminate, MDF and OSB markets. For the nearest 2 years all those markets shows positive trend.

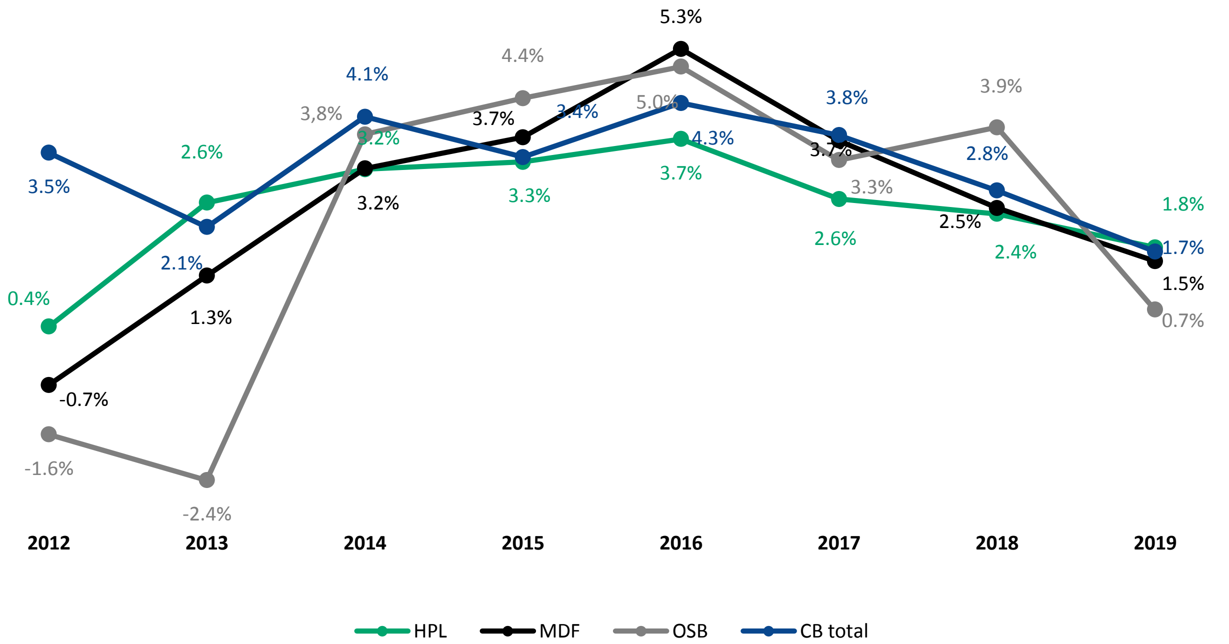
In case of DACH countries OSB market characterizes the highest growth dynamic. Moderate positive change is expected at HPL and MDF/HDF market. In Poland there's expectation that all product market will have comparable growth dynamic.

FIGURE 10: MARKET SIZE DYNAMIC (VOLUME) - DACH



Source: B&L

FIGURE 11: MARKET SIZE DYNAMIC (VOLUME) - POLAND

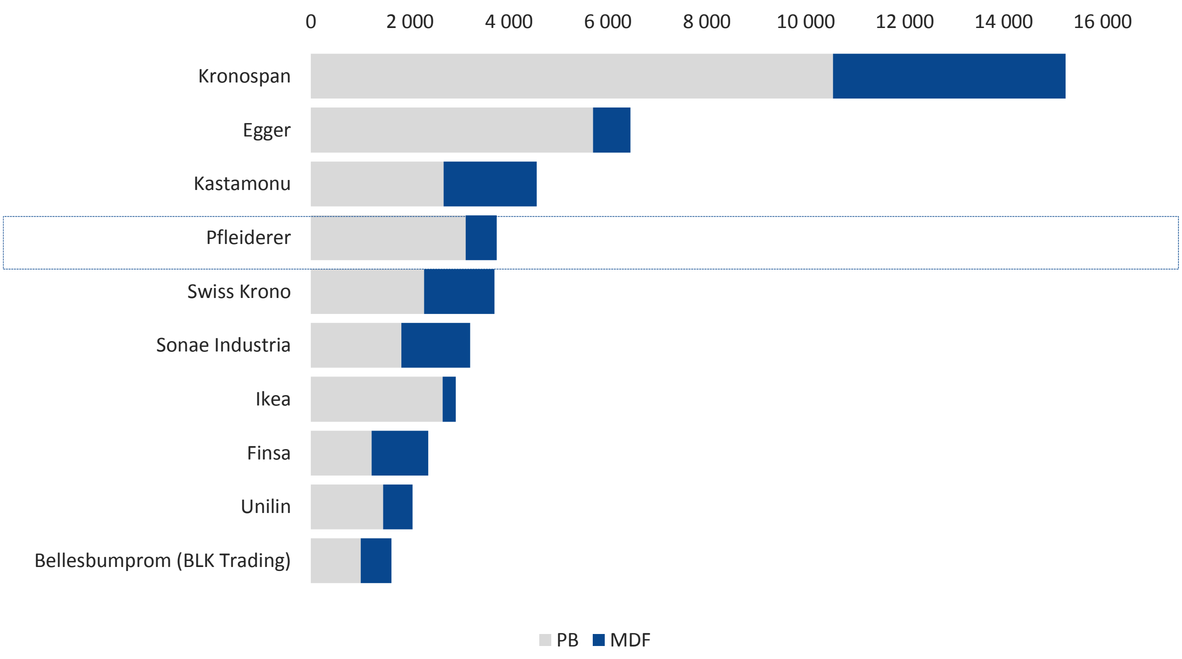


Source: B&L

Production capacity position in Europe

The overall European particleboard and MDF production capacity is foreseen to increase by around 0.9% in 2016, and remain below the 40 million m^3 of MFP and around 15 million m^3 of MDF. On that market Pfleiderer is one of the TOP 5 player.

FIGURE 12: PRODUCTION CAPACITY IN EUROPE – TOP 10 PLAYERS X1000 M^3



Source: EPF

Construction markets development perspective

Construction business at core markets, in Poland and DACH countries, is expected to grow. DACH market is bigger, Polish market develops more dynamically (at the background of other European countries, Poland is one of most dynamically developing markets). Till 2018 one can expect average yearly growth rate at level of 0.7% for DACH and 4.2% for Poland.

TABLE 5: AVERAGE YEARLY GROWTH 2016-2018

	CAGR 2016-2018		
	Total	**Residential**	**Non-residential**
Poland	**4.2%**	4.6%	3.9%
DACH	**0.7%**	0.7%	0.5%
Germany	**0.6%**	0.8%	0.2%
Austria	**1.9%**	1.9%	2.0%
Switzerland	**0.4%**	-0.3%	1.3%
France	**3.7%**	4.4%	2.6%
Italy	**1.3%**	0.9%	1.9%
United Kingdom	**2.3%**	1.8%	2.7%
Belgium	**2.1%**	1.8%	2.5%

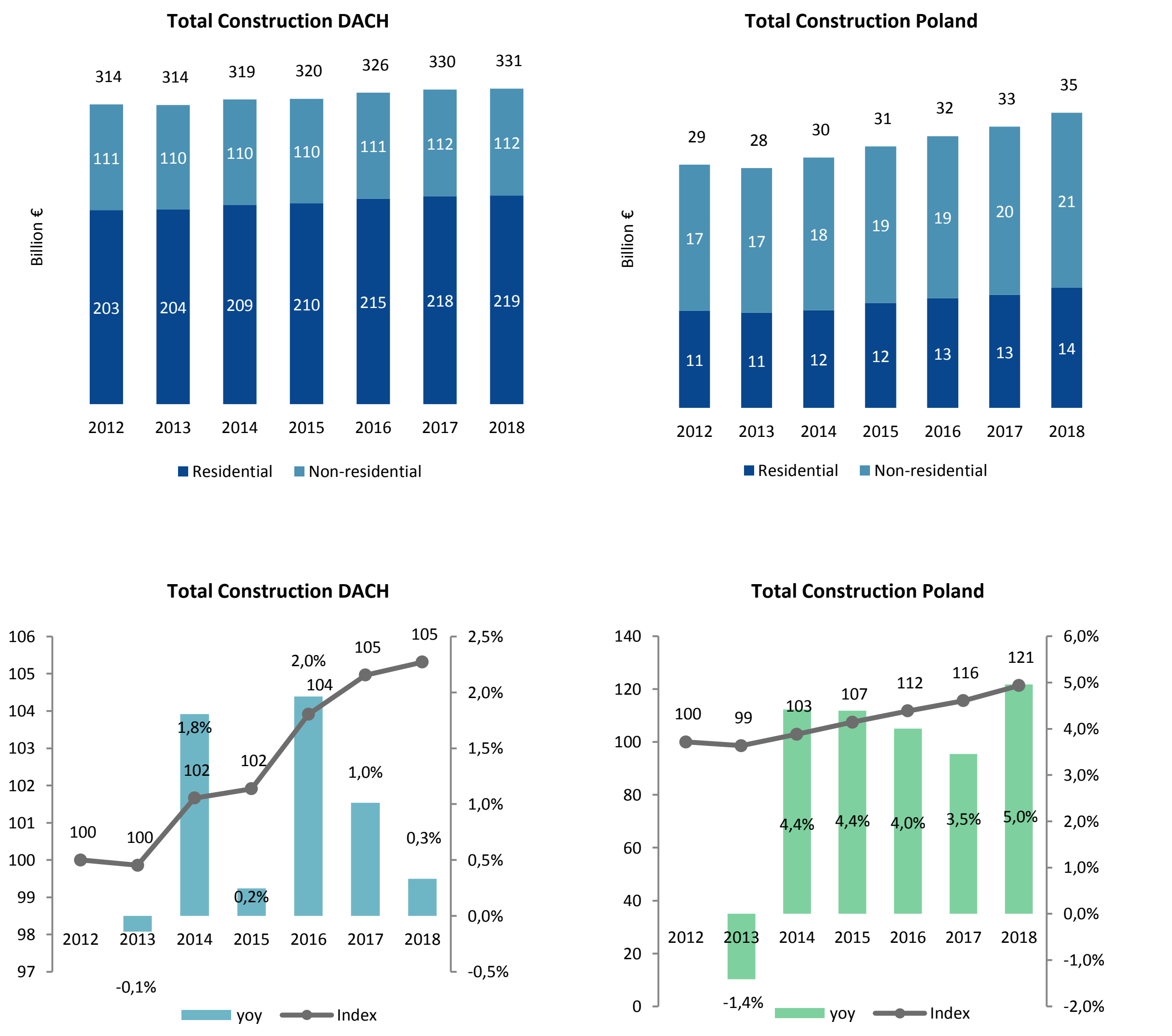
Netherlands	**4.9%**	6.2%	3.1%

Source: Euroconstruct

Drivers of construction market

In DACH countries construction market is driven more by residential construction. Opposite to the market is Poland, driven mostly by non-residential buildings.

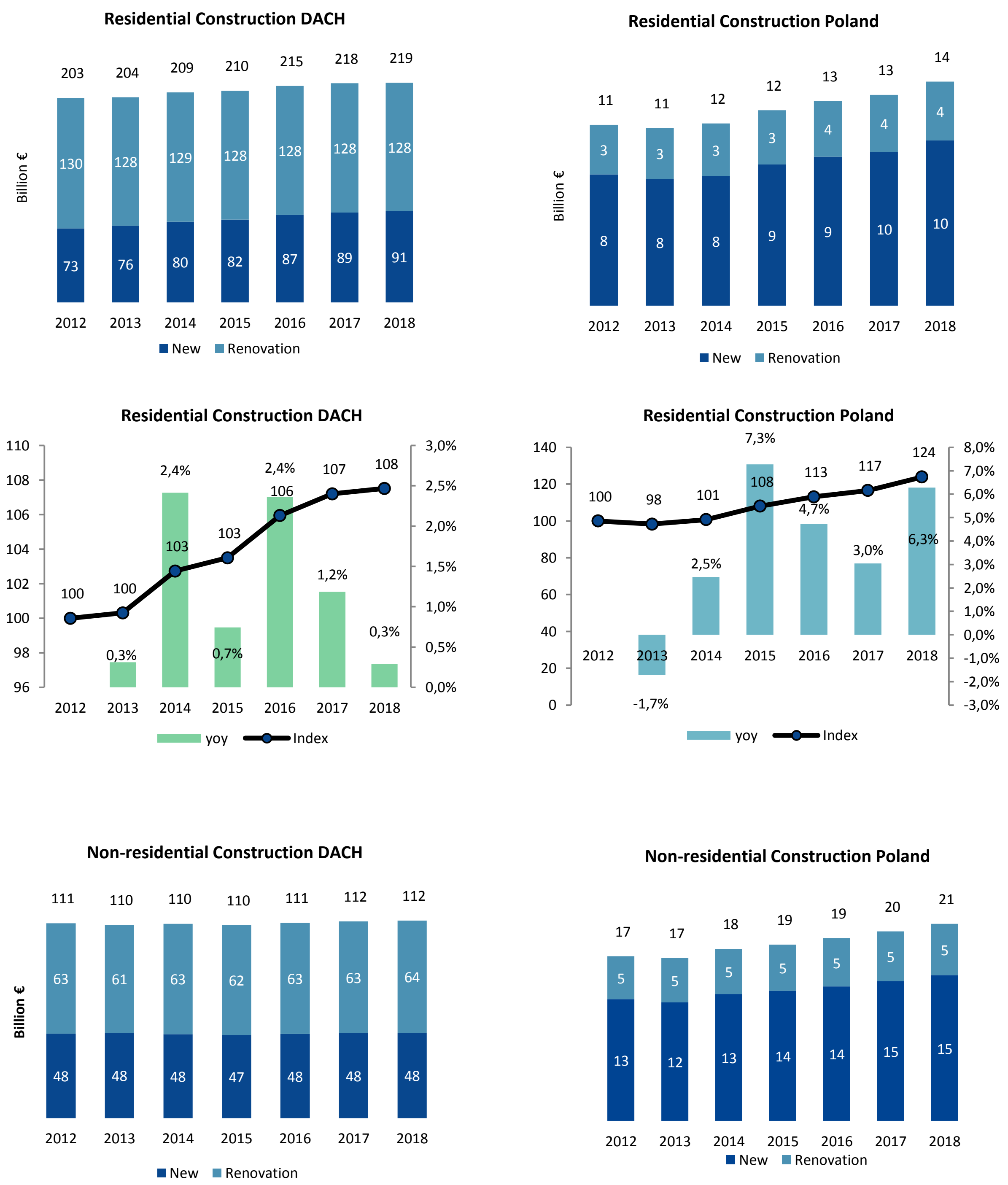
FIGURE 13: TOTAL CONSTRUCTION



Source: Euroconstruct

German language speaking countries markets are based mostly on renovation construction (in residential and non-residential building). In Poland there's different situation – new buildings takes bigger part of the construction business.

FIGURE 14: RESIDENTIAL AND NON-RESIDENTIAL CONSTRUCTION



Source: Euroconstruct

1.5. EXTERNAL AND INTERNAL FACTORS AFFECTING THE GROUP'S BUSINESS

External factors affecting the Group's business:

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

Internal factors affecting the Group's business:

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

1.6. RISK MANAGEMENT

The Pfleiderer Group is currently reorganizing and repositioning itself on the market. This is particularly reflected in a Group-wide, fundamental project to reorganize business and operating activities. This project with the name "ONE PFLEIDERER" has the objective of harmonizing and optimizing operational business processes such as procurement, supply chain management, sales, production planning etc. and the administrative processes of the two existing divisions "Core West" and "Core East" under the management of the new parent company Pfleiderer Group S.A. This will be visible not least in a uniform collection for the entire Capital Group that will be offered in both Eastern and Western Europe starting next year. Processes will be standardized and improved for the entire Pfleiderer Group in order to reduce and overcome duplications and inefficiencies, not only in operations but also in the administrative area. Pfleiderer "West" and "East" will grow together – as ONE PFLEIDERER – if we:

- coordinate our brand presentation with one another,
- improve our competitiveness and growth rates,
- have a more extensive presence in our core markets,
- utilize existing advantages with the aid of shared supplier management,
- adapt more quickly to market conditions on the basis of a leaner and more dynamic organization,
- break down internal "borders" and tap existing skills transnationally, and
- optimize the performance of individual units, thereby boosting profitability.

In light of the expected general macroeconomic and sector-specific development and the measures mentioned, we expect our revenues to increase. In the 2016 financial year, sales revenues for continuing operations recorded growth in the low single-digit percentage range. As a result of the measures initiated, sustainable EBITDA increased by a low double-digit percentage. Net debt of the continuing operations remains virtually constant. This will result in a further improvement in leverage and gearing. Cash and cash equivalents will increase by around one-tenth in line with our plans as a result of the planned business development. The equity ratio will increase slightly again, primarily due to the anticipated positive development of earnings.

The accuracy of these forecasts and opportunities largely depends upon successful implementation of the projects and measures described, and upon the accuracy of the macroeconomic and industry-specific forecasts.

Risk report

All entrepreneurial activity is inextricably linked with risk. For this reason, effective management of risk is an important factor for the success of any effort to sustainably safeguard enterprise value. One of the fundamental tasks of management, in accordance with the applicable requirements of corporate governance and the principles of best practice, is the establishment and operation of an effective internal control system (ICS), risk management system (RMS) and compliance management system (CMS).

Like other companies, Pfleiderer Group is also exposed to risks relating to its business activities. The Company confronts uncertainties and constant change in the legislation and regulations in the various jurisdictions relevant to the Pfleiderer Group with a standard, Group-wide control and risk management system and the internal auditing department. These instruments are evolving on an ongoing basis and are adapted to changing conditions.

Within the scope of existing processes, the Company's management and Supervisory Board are regularly informed of risks that could significantly affect the business performance of the operating divisions and the Group.

The risks are assigned to different risk classes based on a risk matrix using the dimensions of "amount of loss" (less than EUR 5 million, EUR 5-10 million, EUR 10-20 million, and more than EUR 20 million) and "probability" (from 1% "unlikely" via seven levels to 90% "occurrence is imminent"). In turn, these risk classes are classified as "low," "medium," "significant," "serious", or "endangering the Group's continued existence" depending on their impact on net assets, financial position and results of operations. Countermeasures are defined, and the identified risks and countermeasures are actively managed and regularly reviewed.

Central risk areas

In the view of the management at Pfleiderer, the central risk areas comprise risks of developments that would be likely to have a significant impact on the Company's net assets, financial position and results of operations. We have essentially identified the following issues as risks that go beyond the usual market risks (net amount of loss of more than EUR 1 million):

Legal risks:

Past legal violations resulted and could further result in claims for damages against the Pfleiderer Group, the amounts of which could far exceed damage payments associated with the normal course of business and could thus have a serious impact. These risks cannot be quantified based on the evidence and information available at this time. In response to such claims for damages, Pfleiderer pursues legal defenses and court proceedings which it bases on counter-assessments.

Legal and regulatory risks:

The revised German Renewable Energy Resources Act 2014 (EEG 2014) came into effect on August 1, 2014. Because the new legislation considerably tightened the requirements for use of the (partial) exemption from the EEG reallocation charge, there is a risk that, in the future, one or more companies of the Pfleiderer Group will no longer meet the requirements for partial relief from the EEG, or will not come under what is known as the "hardship rule" [Härtefallregelung]. The exemption from the EEG reallocation charge totaled approx. EUR 20.0 million in 2016. The likelihood that the EEG relief for hardship cases will cease to apply in the future is considered to be conceivable and the loss could be significant. This risk is countered by obtaining external expertise and implementing internal measures to ensure that the stricter conditions are met.

Tax risks:

The Western European segment is subject to certain tax risks. In the 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 PCF GmbH (formerly Pfleiderer 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 Pfleiderer Deutschland GmbH, which could in turn lead to an assessment requiring payments of tax arrears. As a result of the change in shareholders of PCF GmbH that occurred as of January 19, 2016, it is possible that the tax losses for 2016 may also not be realizable. It cannot be ruled out that the fiscal authorities will reject the position taken by PCF 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 PCF GmbH in December 2015, which may lead to uncertainty with regard to the possibility of tax loss utilization for the 2015 financial year. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

In 2014 PCF GmbH (and its subsidiaries) recognized valuation allowances on receivables to the so-called “Non Core”-companies of the former Pfleiderer Group in respect of foreign currency gains recognized 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 PCF GmbH, which could cause additional tax payments. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

PCF GmbH is subject to a tax risk regarding the restructuring gain incurred in 2012 in connection with the insolvency plan. The tax treatment of the restructuring gain may be affected by a judgment of the Federal Fiscal High Court published on February 07, 2017 (GrS 1/15). According to the decision, the decree of the Federal Ministry of Finance dated March 27, 2003 (so called “Sanierungserlass”) which ensures a preferential treatment of the restructuring gain is not correct. This decision may lead to uncertainty regarding the possibility of receiving a waiver from the tax authorities for any taxes due on the restructuring gain to the extent that PCF is not protected by binding rulings issued by the competent authorities. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

Market and price risks:

In the event of an inadequate F&E strategy, Pfleiderer could lose market share due to a lack of new and innovative products. Insufficient investment in research and development could mean that new product and process development goals are not achieved to an adequate extent. This could result in lower pricing power and consequently an unfavorable development of the Group. This is regarded as a significant risk. The Company responded to this risk by realigning and reorganizing its R&D activities.

Alternative products such as painted fronts, stone countertops, etc. could represent competition to Pfleiderer’s market potential. This is regarded as a medium risk. This risk is countered by developing an appropriate product strategy.

A fairly significant portion of our product range relates to commodities, which are associated with high price volatility. The risk is made up of interchangeability of products, rising material costs, and the disappearance of international sales markets. Furthermore, it cannot be ruled out that reopening closed plants or expansion of capacity by other competitors may lead to an adverse development of sales prices. This risk is considered to be medium. To counter these risks, emergency plans are drawn up that anticipate the Company’s reactions to different scenarios of these developments.

Environmental and production risks:

A lack of replacement investments or maintenance in the past could result in a backlog of maintenance and investment. Insufficient replacement investments and postponed repairs and maintenance work may lead to breakdowns of machinery and production facilities. This is classified as a medium risk. In addition, investment requirements may arise due to a failure to meet legal requirements, for example in relation to fire safety. If regulations and specifications are not complied with, there is a need to take action.

There are risks with regard to legislation concerning the emission of formaldehyde. This is considered to be a medium risk. In the event of a massive tightening of statutory provisions at either the national or European level, more substantial investments would need to be made to meet the feared stringent requirements. The investments in production facilities that would then be required could be very capital-intensive.

Through the oligopolistic and – in the case of strips, the monopolistic – procurement market, there is a danger of "not-on-time" availability of structured sheet metal and strips that also fail to meet requirements. There is also a risk due to the closing-down of production of the Sandvik Surface Solution company, as it will only be possible to procure strips from the remaining competitor Berndorf. While Berndorf will take over some of the equipment and the know-how, it will still have to familiarise itself with this technology, as it uses digital technology. This is classified as a significant risk.

1.7. INFORMATION ON MATERIAL AGREEMENTS AND TRANSACTIONS

Material party-related transactions in 2016

For the information regarding related-party transactions as at 31 December 2016 and for the period from 1 January to 31 December 2015 see Note 30 and 31 in the notes to the consolidated financial statements of the Pfleiderer.

In the period from 1 January to 31 December 2016, all related-party transactions were executed on an arm's length basis.

1.8. COURT PROCEEDINGS

Information related to significant settlement of litigation

As at 31 December 2016, the Group did not carry any material settlements under court proceedings.

Contingent liabilities

Eastern Europe:

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

At the date of the publication of these consolidated financial statements it is unclear whether OCCP will determine any breaches of Article 6 of the Act on Competition and Consumer Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. At this stage, given the fact-intensive nature of the issues involved and the inherent uncertainty of such investigation, it is not possible to evaluate the outcome and potential financial consequences of this still pending and long-lasting investigation, management has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in the consolidated financial statements.

Western Europe:

An earlier investigation by the German Federal Cartel Office in 2009 concluded in 2011 that PCF GmbH (then, Pfleiderer 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. PCF GmbH's share of the fine was settled in yearly instalments and fully repaid by the end of 2016.

As described below, two of the Pfleiderer Group's customers have sued the Pfleiderer Group for damages in connection with these antitrust violations. The companies are seeking compensation in connection with these antitrust violations. The outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Based on its best knowledge the Management estimated costs related to antitrust violations of EUR 7 650 thousand which include costs related to legal proceedings with Classen as well as legal costs and amicable settlements of claims from Alno, Oesder and Huels. Depending on the final outcome of the negotiations and/or the proceedings, the Group could be obligated to make further 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 Pfleiderer Group's current customers, filed an action with the regional court of Düsseldorf (Landgericht Düsseldorf) against the custodian (Sachwalter) of PCF GmbH (then Pfleiderer AG) seeking the acceptance of its claim to the insolvency schedule (Insolvenztabelle) filed in May 2012. The insolvency proceedings ended in December 2012. In April 2013, after the insolvency proceedings had ended, Classen extended its claim to PCF GmbH. Classen seeks payment of the insolvency quota in the amount of EUR 1.3 million based on a claim for potential damages arising from the same deliveries as in the case against Pfleiderer Baruth GmbH, as described below. The court is inclined to dismiss the claim in its entirety because it deems the claim against the custodian as inadmissible due to the absence of authority to litigate at the time the claim was served on the (then former) custodian (January 2013). As regards PCF GmbH, the court deems that Classen did not meet the exclusion period stipulated in the insolvency plan. The court's decision is scheduled for 27 April 2017. In December 2012, Classen also filed an action for damages with the regional court of Düsseldorf (Landgericht Düsseldorf) against Pfleiderer Baruth GmbH (then: Pfleiderer Faserplattenwerk Baruth GmbH) currently amounting to approximately EUR 55.4 million (plus interest). The proceeding is still pending and the outcome, i.e. the further 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. At the recent oral hearing on 2 February 2017, the court has not clearly indicated whether it deems the claim justified as to the merits or not. The court intends to decide on the further proceedings on 27 April 2017. As a result, the management has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision or accrual has been recognized by the Group in these consolidated financial statements.

In December 2014 Alno AG ("Alno"), one of the Pfleiderer Group's customers, has claimed substantial damages from PCF 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 PCF GmbH and another party in late December 2015 (in total EUR 32.9 million plus interest). As at 31 December 2016 the Management based on its best knowledge recognised an accrual for the expected outcome which is included in the total amount of EUR 7 650 thousand. Plaintiff is due to file its next submission on 11 April 2017. It is intended that the parties try to negotiate an out-of-court settlement. However, the first settlement offer in the amount of EUR 1 million cash and EUR 0.4 million in discounts on future deliveries has been rejected by ALNO. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfleiderer 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, PCF GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court has passed a judgement on 31 May 2016 according to which the claim is justified on the merits but subject to further discussion regarding quantum. Glunz AG has filed an appeal against this decision with the higher regional court in Celle. The oral hearing is scheduled for 17 October 2017. As at 31 December 2016 the Management based on its best knowledge recognised an accrual for the expected outcome which is included in the total amount of EUR 7 650 thousand. PCF GmbH's obligation for substantial payments may result from a contribution claim (Gesamtschuldnerinnenausgleichsanspruch) based on PCF GmbH's joint and several liability (Gesamtschuld), if Glunz or any other third party is obligated to pay compensation to Oeseder. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

Hüls Group is seeking damages for all chipboards supplied by the Pfleiderer Group and other producers from 2002 to 2008. PCF GmbH has successfully reached an out-of-court settlement with Hüls covering all claims arising from direct and/or indirect deliveries from the Pfleiderer Group to the Hüls Group for a total payment of EUR 2.5 million, included in total amount of accrual EUR 7 650 thousand. The settlement agreement is currently being signed by the Hüls Group.

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 PCF GmbH (formerly Pfleiderer 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 Pfleiderer Deutschland GmbH, which could in turn lead to an assessment requiring payments of tax arrears. As a result of the change in shareholders of PCF GmbH that occurred as of 19 January 2016, it is possible that the tax losses for 2016 may also not be realizable. It cannot be ruled out that the fiscal authorities will reject the position taken by PCF 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 PCF GmbH in December 2015, which may lead to uncertainty with regard to the possibility of tax loss utilization for the 2015 financial year. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

In 2014 PCF GmbH (and its subsidiaries) recognized valuation allowances for receivables to the so-called "Non Core"-companies of the former Pfleiderer Group in respect of foreign currency gains recognised 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 PCF GmbH, which could cause additional tax payments. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

PCF GmbH is subject to a tax risk regarding the restructuring gain incurred in 2012 in connection with the insolvency plan. The tax treatment of the restructuring gain may be affected by a judgment of the Federal Fiscal High Court published on February 07, 2017 (GrS 1/15). According to the decision, the decree of the Federal Ministry of Finance dated March 27, 2003 (so called "Sanierungserlass") which ensures a preferential treatment of the restructuring gain is incorrect. This decision may lead to uncertainty regarding the possibility of receiving a waiver from the tax authorities for any taxes due on the restructuring gain to the extent that PCF is not protected by binding rulings issued by the competent authorities. As at 31 December 2016 the management assessed the risk related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2016 no provision has been recognized by the Group in these consolidated financial statements.

1.9. WORKFORCE AT THE PFLEIDERER GROUP

Human Resources Management

3,365 Annual employment in **Pfleiderer Group** in 2016

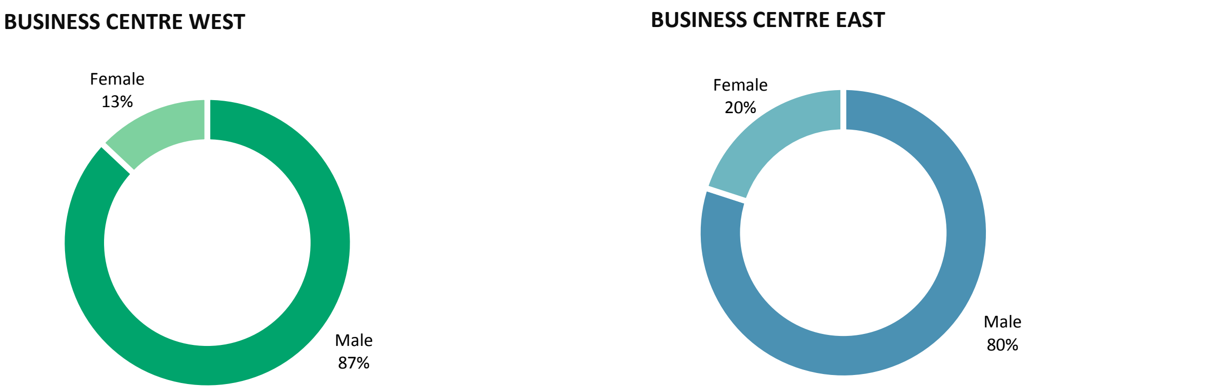
1,280 Annual employment in In **Business Centre East** in 2016

2,080 Annual employment in In **Business Centre West** in 2016

TABLE 6: WORKFORCE IN THE PFLEIDERER GROUP (AVERAGE HEADCOUNT)

	2016	2015
Management	7	5
Direct production employees	1,502	1,438
Indirect production employees	779	691
Administration, office and other employees	977	886
Total	**3,258**	**3,015**

FIGURE 15: THE GENDER STRUCTURE



In 2016, the agreed integration activities were continued and Pfleiderer Polska sp. z o.o. in Wrocław was established with following functions:

- Customer and order management
- Marketing (product management & marketing services)
- HR
- Purchasing
- IT

At the end of 2016 Pfleiderer build order management team, which provide services for whole the Group. The development of product management area was a challenge, especially in high-margin product, for example HPL. The most crucial was an assistance for sales department in the preparation of new collection launch process in Poland, Germany and export markets. Nowadays, the Group's salesforce is prepared to communicate One Collection to the customers. Pfleiderer has employed/collected 60 employees, whose responsibility is strengthening the new sales strategy in the whole Group, particularly in new areas such as investment market (hotels, public buildings).

Managers at all levels and from all countries have received special support in the area of change management and functional organization building. The next step is market development in Central & Eastern Europe, where the Group have already employed workforce who implements the strategy of sales. The training and development strategy is focused on the development of young executives and middle production management, but also experts in project management area.

Pfleiderer Group focuses on employees development from the first day of their work. Everyone new at company follows onboarding plan, adjusted to his/her role and individual needs. We provide numbers of development programs to help our associates and managers to upskill their competences and be ready to follow the internal carrier path opportunities.

The managers new in the role take part at **FIRST TIME MANAGER** program - the cycle of training which helped them to become the leader of his / her team. As the first step the Assessment Center sessions are provided. Then delegates work on their development focusing e.g. on managerial situational management, motivation styles.

The plants first line managers promoted internally were invited to participate at **BASIC MANAGEMENT** (the group of 24). During 9 days of workshops they concentrated on managerial knowledge and skills development as well as on the implementation on training by post-workshop tasks. During this program they also delivered project supporting launching the strategic directions within Pfleiderer Operations.

To collect as well as to exchange the best practices Top Management members (c.a. 20 leaders) continued the **TECHNICAL UNIVERSITY OF MUNICH EXECUTIVE TRAINING**. Each three days session's dedicated to some Pfleiderer strategic success factors (f. ex. change management, strategy implementation etc.). On the other hand delegates were inspired by experts with worldwide experience.

The Company applies towards the members of governing bodies as well towards the key managers a **broadly defined diversity policy** regarding in particular education profile, age and professional experience. The key managerial positions within the capital group of the Company are being held both by women and men. The purpose of the diversity policy applied by the Company is to ensure that the Company is run by highly qualified managers with as diversified as possible experience useful at given positon. Additional purpose of the diversity policy is to counteract any discrimination, including a discrimination connected with the origin, gender, sexual orientation, religion, outlook on the world, handicap or age.

Workforce at Pfleiderer Group S.A.

As at 31 December 2016, the Company employed 16 staff, including the management personnel and staff working under managerial contracts or appointed by the Supervisory Board. The Company's employment structure as at the end of the reporting period was as follows:

TABLE 7: WORKFORCE IN THE PFLEIDERER GROUP S.A. (AVERAGE HEADCOUNT)

	31 Dec., 2016	31 Dec., 2015
Direct production employees	0	269
Indirect production employees	0	128

Administration, office and other employees	13	185
Management staff	3	2
Total	**16**	**584**

Change in the headcount of Pfleiderer Group S.A. resulted from contribution in kind of Operational Activity of the Company on 31 August 2016, as a result of which the Company became pure holding company.

1.10. RESPONSIBILITY ALONG THE VALUE CHAIN

We can only build a future worth living by thinking and acting sustainably. At Pfleiderer, we do everything in our power to achieve this goal. That is why sustainability is an essential condition in all our corporate activities. At economic, ecological and social levels.

Our products are not only manufactured with the utmost care, our processes are also controlled by a certified environmental management system. We have a special responsibility, not only as a manufacturer, but as an employer as well: For this reason, our company cultivates a culture of mutual trust geared towards responsible, self-reliant action. This means sustainability for your benefit - environmentally sound products, committed employees and maximum satisfaction.

Health and Safety

The overall safety performance in 2016 showed a reduction of accidents (-15% against 2015) and absence hours (- 20% against 2015). In January 2016, in Grajewo site tragic accident happened. Under this circumstances the Group have decided to work on a new program for safety to improve the safety culture of the company and avoid all accidents in the future. In line with the "ONE PFLEIDERER" project the new program "ONE SAFETY" was introduced. In addition our new safety mission "SAFETY FIRST" includes also the "ZERO ACCIDENTS" target. The "ONE SAFETY" program is based on five major columns: leadership, communication, qualification, organization and standards. We have started the program in 2016 with the leadership column and new working methods concerning prevention of accidents. This program will be continued in 2017 as an ongoing process. In addition we have decided to implement "Health" inside the "ONE SAFETY" program and to improve "Health & Safety" as a common company value.

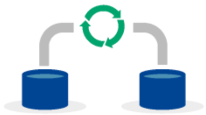
Environment

In 2016 the most important environmental activities have been related to 2 new environmental legislation processes:

REACH Process

REACH is the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals. It entered into force in 2007, replacing the former legislative framework for chemicals in the EU. During the European REACH Process all chemicals which are produced in or imported to Europe have to be evaluated by ECHA (European Chemical Agency) regarding the environmental impact during the whole value chain. Aim is to restrict or authorize the usage. This process also considers all glues and resins which are used in the production process of Pfleiderer Group.

ECHA had to take into account the reclassification of formaldehyde which had and will have impact on the emission of the products and the OEL (Occupation Exposure Limit) value for formaldehyde on workplaces in production. The OEL value for formaldehyde on workplaces has been lowered in Germany and it is expected that in 2017 it will also happen in Poland. In 2016, the Pfleiderer Group evaluated the plants what is necessary to fulfill the new requirements and to define measures. Additionally, the authorities invited us to decide concrete steps how this new limit value can be fulfilled, measured and supervised. The authorities ECHA acknowledged that the Pfleiderer Group has a big experience and skilled staff to make the necessary measurements by the own laboratory. In 2016 the situation in each plant was evaluated, improvements have been done when necessary. According to abovementioned reasons it was possible to meet the new limit value even if there is a certain transition period given by the authorities. Together with the authorities a simple and very effective system was developed to make visualization of the different concentrations in the plants and to guarantee the health of the employees.



BREF Process

In the European BREF Process a harmonized environmental law was developed by the European Commission for the Wood Based Panel Industry (WBP industry). New limit values for the plants have been decided and will come into force end of year 2019. The authorities invited Pfleiderer Group to take part in the discussions on national level in Germany and Poland what is related to transformation of the European law into national law. The discussion covered areas related to national level such as measurement methods, frequency of measurements and also the concrete decision of the new limit values.

In 2016, in all plants the situation regarding the new limit values was evaluated because Pfleiderer Group has the approval of the authorities to perform certain measurements by their own central laboratory. In 2016 for all plants the need of investments could be evaluated and quantified. Necessary investments have been put into the budget for the next few years and in some cases it was possible to meet new limit values by now (even if they have to be fulfilled by the end of 2019 from a legal point of view).

In both processes on European level working groups have been installed by the European Commission to work on the details regarding the new legislation and to generate European norms which will be implemented in the next few years. Pfleiderer Group was invited by the European Commission to attend working groups in 2016.

Suppliers & raw materials

Purchasing is acting in the process of procuring the required product or service with a defined quality or specification at the right time and with an amount needed for the lowest possible costs from a reliable source. It includes the process of identification, acquisition, access, positioning, management of resources and related capabilities.

Currently, approximately 70% of the Groups turnover is purchased from the procurement market which means that purchasing bears a great responsibility for the cost structure and the buyer is obliged to make a major contribution to the competitiveness of the Pfleiderer Group.

We expect active support from our suppliers in the development and in the testing of new products, flexibility and absolute delivery reliability. All supplies and services have to meet the Group quality requirements and to make a continuous contribution to cost savings.

Purchasing in the Pfleiderer Group is managing by spend in three areas:

- Direct (Chemicals, Paper, Energy)
- Wood
- Indirect

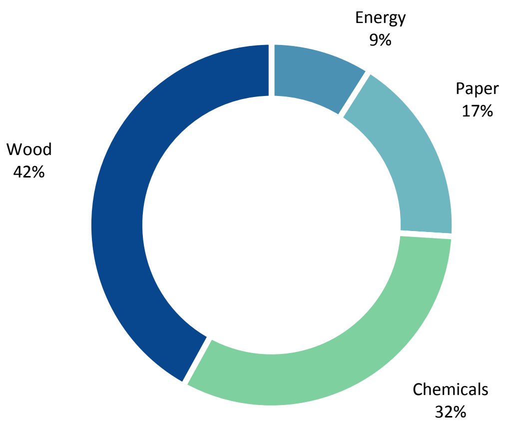
Using scale and power of all the Group, each area negotiates terms and conditions with suppliers, based on strategy prepared and realized in each sub-material group.

Purchasing Department in 2016 was responsible for cooperation with suppliers in many projects, one of the most important is FAFIO (Focus Areas For Improvement in Operations), which assumes savings in following years. On-going target is also to further enlarge advantages of Global Sourcing markets and optimization of working capital.

Simultaneously Purchasing Department also works on project “Purchasing Excellence”, where it wants to intensify focus on strategic fields in purchasing and further develop the purchasing organization and its performance towards best practice.

None of the suppliers of the capital group of the Company has the share in total value of supplies equal to or higher than 10% of total sales revenues of the capital group of the Company.

FIGURE 16: THE MATERIAL GROUP BASKET OF PRODUCTION OF CHIPBOARDS - PARTLY ON PURCHASING VOLUME



Wood

For wood materials each production plant apply “multiple sourcing” strategy, to control supply chain and reduce risk of supply disruptions. Group makes an agreements with local wood suppliers, to have a possibility of sawmill wastes and recycling wood purchase. These materials are using to raw chipboard production process. Due to the relatively low price of wood materials in a relation to transport costs, the most economical way is to make an agreements with wood suppliers operating within range of 150-200 km from the production plant.

The usage of wood for energy production is on a high level. Therefore is a competition between energy production and production of wood products. As a result of wood market analysis for Germany and Poland in 2017 Pfleiderer expects a comfortable availability of chips, rounded wood and recycling wood. However, Pfleiderer sees some risk in the competition on the pellet industry business for the market of sawdust in Poland and Germany. Group also increase to using of recycling wood and chips as a production – mix, which ensure lower production costs.

Chemicals

Group uses for own production resin produced in Silekol plant , but also diversifies by partial external purchases. In the production of glues and resins, the key ingredients are urea, methanol and melamine. In 2017 all chemical raw material prices follow the global oil and gas market prices.

Paper

The Pfleiderer Group orders décor paper and technical paper from worldwide range suppliers. Through buying paper at the global scale, the Group can decrease prices thanks to bundling purchase process.

The price of paper consist by two main components: pulp and titanium dioxide. Titanium dioxide is using mostly in white decors, because of the high content of covering white pigments in it.

Energy

The purchase of gas and power is performed centrally within the Pfleiderer Group. The Group's energy strategy is based on a rolling risk managed purchasing process where short-, middle- and long-term expectations for prices from the wholesale commodity markets are continuously evaluated.

The year 2016 was driven by historically cheap prices on the spot and futures markets, combined with quite pessimistic future expectations from conventional energy producers especially in Germany. As a result of the very short terminated and market orientated energy purchasing strategy during the year 2016, positive savings effects could have been realized.

Starting with the second quarter of 2016, short until long term futures contracts began to rise as a result of a global consolidation on the coal and oil markets.

Indirect

Indirect is important purchase area (materials, services and Capex), whare the Group exploits opportunities of joint purchasing and reduction of the number of suppliers obtaining more efficiency and effectiveness in purchasing process.

Sustainability

The Pfleiderer Group supports the principle of sustainable forestry, which is why we only use wood from sustainably managed or certified forests or recycled wood in our products. Standards such as the PEFC™ (Programme for the Endorsement of Forest Certification) and FSC® - FSC® license code: FSC-CO011773 (Forest Stewardship Council) ensure sustainable management and are therefore followed in the purchasing department. These programmes ensure that companies act and trade according to defined ecological, social and economic standards. The Pfleiderer Group never uses wood from exhaustive cultivation or forest destruction.

Each year Pfleiderer processes around five million cubic meters of wood – that is roughly the equivalent of 800 truckloads per working day. We mainly only consider suppliers who are within a radius of around 200 kilometers – for economic reasons too. Because we avoid unnecessarily long routes, the environmental impact is reduced.

Some timber, which has already passed through our factory gates, does not get into our products for quality reasons. We nonetheless find a use for it: In most of our locations we run biomass CHPs (combined heat and power stations) or other biomass incineration plants and in this way use up the separated out timber and other fuels. The energy produced in this way flows into our production processes. In this way we contribute to reducing the share of fossil energy sources to a minimum. Our efficient energy management system has been rewarded with the certification of all German factories to EN ISO 50001. EN ISO 50001 is the current global standard for energy management systems and has been in force since 2011. Systematic recording and assessment of the type of energy used, the energy quantities and energy efficiency ensures that emissions can be reduced, resources spared and costs lowered.

We check our emissions continuously, in order to minimize them still further – wherever possible. An example: For years the German locations Gütersloh and Neumarkt have voluntarily achieved values up to 80% below the legally specified limits for heavy metal and dioxin emissions. The actual daily values are available on our website.

Water is a valuable resource. In the interests of integrated factory planning, we handle this resource carefully. Some of the wastewater from the production process, for example, that remains after cleaning plant parts or washing and shredding chippings, is used directly elsewhere in the production process – for example, as mixing water for glue. The quantity of wastewater that then remains is then treated and flows back into the production processes. After the wastewater has been vaporised, the distillate is fed back into the production process. The factory is therefore completely free from process wastewater.

Wood products are carbon sinks: The CO_2, which the trees have drawn from the atmosphere before they are processed, stays stored in the product. Through this effect, wood products help to reduce greenhouse gases. Wood products also promote forest growth: Sustainable forestry means that the amount of wood harvested is the same as the amount that regrows. Sustainable forestry therefore contributes to the conservation and expansion of the forests. Managed forests in particular, which consistently maintain, harvest and afforest, lower the amount of carbon in the atmosphere. Because trees which grow absorb CO_2 and produce oxygen.

The Pfleiderer brands have long history and are recognized as the potential of our sustainable products. An example: Raw particleboards for building, such as the LivingBoard, have a corresponding environmental product declaration (EPD) issued by the German Institute of Building and the Environment (Institut Bauen und Umwelt). In this way, designers, specifiers and installers find neutral, comprehensive and comparable information about the respective building product and its sustainability.

Our research and development department continuously tests new methods and processes for using raw materials as sparingly as possible. At the moment it is busy examining the manufacture of particularly lightweight wood-based panels. These should only contain lignocellulose-based raw materials and should be a third lighter than wood-based panels with the same thickness to date.

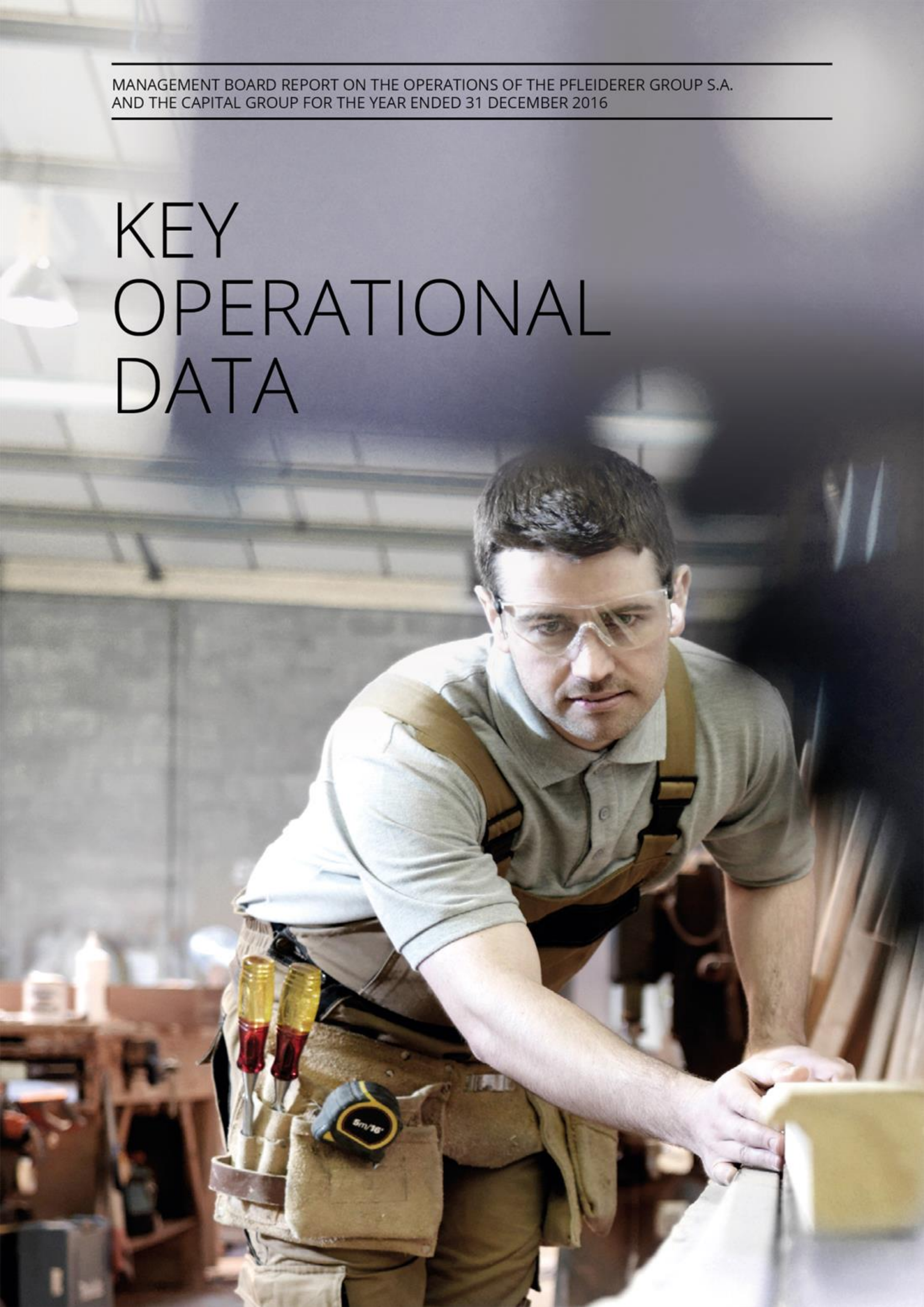
Our objective: To use these methods and processes to consume fewer raw materials – and yet maintain the familiar quality defined in specifications. Such products are also easier to transport and are also easier for customers to handle.

We derive our environmental objectives and the specific programmes from the international environmental management standard ISO 14001, which defines worldwide recognized requirements for an environmental management system. The standard therefore promotes a continuous improvement process for the environmental performance of an organization. Starting from the West Europe region, our medium-term objective is to have the whole Group certified to ISO 14001. All German locations and our Polish glue manufacturer Silekol have already been audited successfully. An overview of our certificates is provided under the corresponding heading in the service area on our website.

Most of our goods are transported by road. In 2013, our own transport company, Jura-Spedition, was one of the first businesses in Germany to change the whole of its truck fleet to the new Euro 6 standard. Jura Spedition therefore now drives even more environmentally friendly than before and uses the latest technologies.

Our products store CO_2 throughout their whole life cycle. The longer a wood product is used the greater the storage effect. After use our products can either be used again as recycled wood material. Or they are used for energy use and in this way help to replace fossil fuels. During combustion the quantity of CO_2 released is no more than was stored in the wood during its life. Due to this thermal recovery, very little waste is produced in the production of our wood products. But we actually think it is a shame to burn wood. We are therefore in favor of cascaded use - as a material first and then energetically.

KEY OPERATIONAL DATA



2. KEY OPERATIONAL DATA

2.1. PRODUCTION VOLUME AND STRUCTURE

In 2016 and 2015 the production volumes of main product groups at the group level were as follows:

TABLE 8: PRODUCTION VOLUMES OF MAIN PRODUCT GROUPS AT THE GROUP LEVEL, DATA FOR 2015 INCLUDE CORE WEST SEGMENT

		2016	2015	Change (%)
Gross production of raw chipboards (finished goods; semi- product for the of laminated chipboards)	ths. cubic m	3,135	3,054	2.65%
Laminated chipboards	ths sqm	106,057	101,767	4.21%
Raw MDF boards (finished goods, semi-product to lacquered MDF boards)	ths. cubic m	545	580	-6.03%

The sizeable YoY growths resulted from organic development in the East and West part as well as changes within the Group's structures.

TABLE 9: PRODUCTION VOLUMES OF MAIN PRODUCT GROUPS IN BUSSINES SEGMENTS

		2016 Core West	2016 Core East
Gross production of raw chipboards (finished goods; semi- product for the of laminated chipboards)	ths. cubic m	1,872	1,263
Laminated chipboards	ths sqm	64,815	41,242
Raw MDF boards (finished goods, semi-product to lacquered MDF boards)	ths. cubic m	357	188

2.2. SALES STRUCTURE

Revenue reported by the Group in 2016 was EUR 929,588. The increase when compared to 2015 is to be attributed to the first consolidation of Pfleiderer GmbH and its subsidiaries on January 19, 2016.

Revenue by product group was as follows:

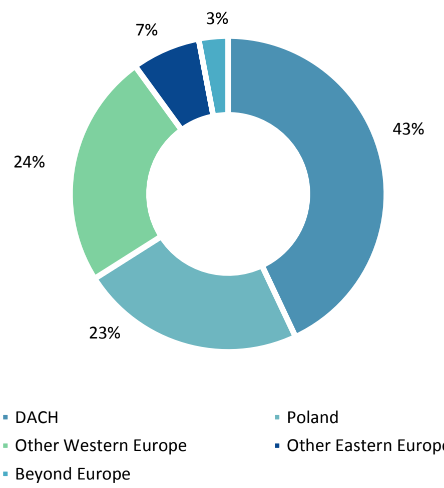
TABLE 10: REVENUE BY PRODUCT GROUP AT THE GROUP LEVEL DATA FOR 2015 RELATE TO GRAJEWO GROUP

Sales products '000 EUR	2016	2015
Chipboard	607,826	197,670
MDF/HDF	113,221	70,702
HPL/Elements	146,988	0
Glue	39,777	72,716
Other products	9,374	20,341
Sale of products	**917,186**	**361,429**
Electricity	31,603	-
Merchendise, materials and services	4,219	12,731
Other (sales deductions)	-23,420	0
Others incl. sales deductions	**12,402**	**12,731**
TOTAL	**929,588**	**374,160**

TABLE 11: SALES VOLUMES BY PRODUCT GROUP AT THE GROUP LEVEL, DATA FOR 2015 COMPRISE CORE WEST SEGMENT

Cbm; Tqm	2016	2015
Raw particleboards total [cbm]	943,176	1,030,426
Laminated particleboard [Tqm]	95,461	99,741
Raw MDF/HDF board [cbm]	392,942	374,147
Laminated MDF/HDF board [Tqm]	3,249	3,182
Lacquered board [Tqm]	33,743	33,797
HPL [Tqm]	10,846	11,363
HPL elements [Tqm]	4,643	4,700

SALES BY REGION



SALES BY CHANNEL

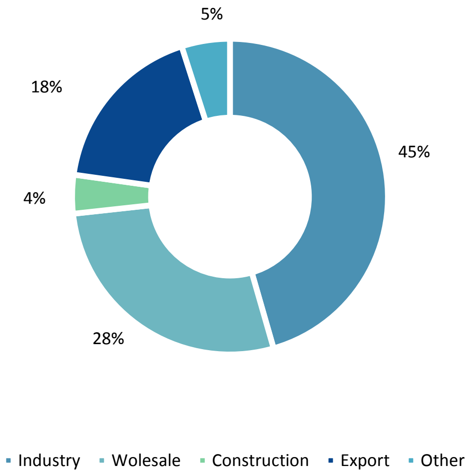


TABLE 12: REVENUE BY REGION AT THE PFLEIDERER GROUP S.A. LEVEL (STAND ALONE)

'000 PLN	2016	2015
Domestic sales	**303,784**	**490,408**
revenue from sale of products	241,215	357,634
revenue from sale of merchandise and materials	43,207	100,930
revenue from rendering of services	19,362	31,844
Foreign sales	**91,665**	**158,543**
revenue from sale of products	90,896	146,727
revenue from sale of merchandise and materials	41	11,583
revenue from rendering of services	728	233
Total:	**395,449**	**648,951**

TABLE 13: REVENUE BY PRODUCT GROUP AT THE PFLEIDERER GROUP S.A. LEVEL (STAND ALONE)

'000 PLN	2016		2015	
	value	% share	Value	% share
Revenue from sale of products	**332,111**	**83.98%**	**504,361**	**77.72%**
Chipboards	267,141	67.55%	397,312	61.22%

Finish foil (foil, edge banding, edge foil)	38,352	9.70%	45,337	6.99%
Other (fibre mats, packaging)	26,618	6.73%	61,712	9.51%
Revenue from sale of merchandise and materials	**43,248**	**10.94%**	**112,513**	**17.34%**
Materials	43,014	10.88%	97,816	15.07%
Merchandise	234	0.06%	14,697	2.27%
Revenue from rendering of services	**20,090**	**5.08%**	**32,077**	**4.94%**
Total:	**395,449**	**100.00%**	**648,951**	**100.00%**

TABLE 14: PFLEIDERER GROUP S.A. SALES BY PRODUCT GROUP

		2016	2015
Raw chipboards	thous cubic m	235.0	335.3
Laminated boards	thous sqm	9,972.5	14,943.3

2016 sales figures are not comparable to figures reported for 2015 because of the transfer of Operational Activity of Pfleiderer Group S.A. to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016. 2016 figures comprise sales results for 8 months of 2016.

The furniture industry was the most important sector for Pfleiderer Group S.A. until 31 August 2016.

By 31 August 2016 the Company's key distribution channels were as follows:

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

FINANCIAL PERFORMANCE

3. FINANCIAL PERFORMANCE

Financial statements of the Parent and the Group

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

3.1. RULES FOR PREPARING THE CONSOLIDATED AND STANDALONE ANNUAL FINANCIAL STATEMENTS

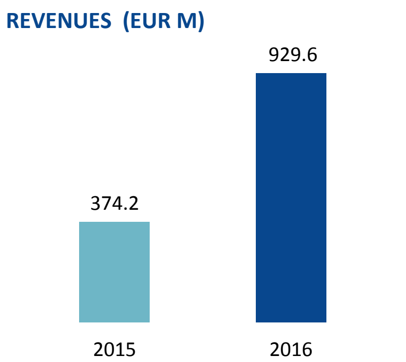
The consolidated and standalone financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards as adopted for use in the European Union ("IFRS EU").

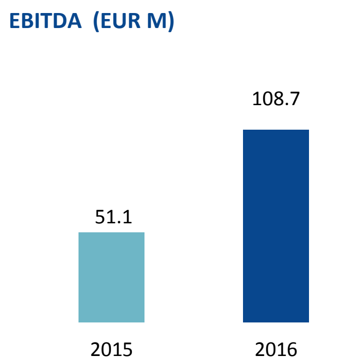
It was authorised for issue by the Group's Management Board on 25 April 2017.

Details of the Group's accounting policies, are included in Note 3 of the Consolidated financial statements and in Note 6 of the Standalone financial statements.

3.2. EXPLANATION OF THE ECONOMIC FINANCIAL DATA DISCLOSED IN THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

3.2.1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS





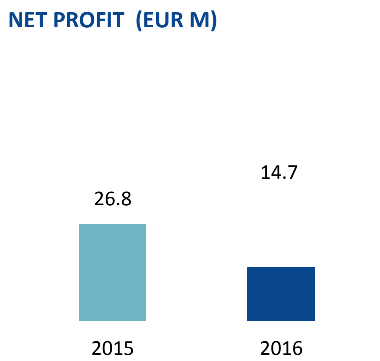


TABLE 15: CONSOLIDATED STATEMENTS OF PROFIT AND LOSS (COMPARABLE DATA OF PFLEIDERER GRAJEWO GROUP)

'000 EUR	Dec. 31, 2016	Dec. 31, 2015
Revenue	929,588	374,160
Cost of sales	-711,527	-299,170
Profit on sales	**218,061**	**74,990**
Other income	8,905	6,175
Distribution expenses	-111,449	-27,865
General and administrative expenses	-49,498	-15,068
Other expenses	-28,636	-2,528
Result from operating activities	**37,383**	**35,704**
Financial income	3,732	522

Financial expenses	-29,713	-3,116
Exchange differences on translating foreign operations	1,664	0
Net financing costs	**-24,317**	**-2,594**
Profit before tax	**13,066**	**33,110**
Income tax expense	1,682	-6,300
Net profit for the period	**14,748**	**26,810**

Revenues came in at EUR 929,588 thousand, up 148% YoY, due to changes within the Group's structure. The East part of the group contributed EUR 308,659 thousand, while the West part twice as much with 2016 revenues at EUR 620,929 thousand. The YoY 17% fall in revenues from the East part resulted from sales price pressure and lower HDF demand from IKEA. YoY growth on margin on overall sales was stronger than on revenues, as the share of value-added products sold increased YoY. As a result, the group's gross profit margin expanded from 20% in 2015 to 23% in 2016.

Changes within the Group's structures also impacted the operating costs. 2016 distribution expenses grew 300% YoY while general and administrative expenses 228% YoY. In total, these expenses reached EUR 160,947 thousand in 2016, constituting 17% of the revenues versus 11% in 2015. It should be taken into account that the operating costs were influenced by higher depreciation and amortization charges (EUR 71,360 thousand in 2016 versus EUR 15,395 thousand in 2015), as a consequence of "reverse takeover" and purchasing assets at their fair values. On top, there was total of EUR 35,036 cost for one-offs (e.g. restructuring, integration West/East) and other one-offs (e.g. antitrust) leading to a less favorable net other operating line in 2016 YoY.

Nevertheless, the Group's result from operating activities reached EUR 37,383 thousand, growing 5% compared to 2015. The YoY comparison is distorted by several non-sustainable items as well as accounting-related issues with no cash impact such as: additional depreciation and amortization on fair value adjustments on tangible and intangible assets (EUR 23 284 thousand),the release of fair value adjustments on inventories (EUR 2,345 thousand). The segmental EBIT contribution was different than in case of revenues, with the East part exceeding the West. The East segmented contributed EUR 24,156 thousand, down 32% YoY apart from above mentioned reasons also due to weaker PLN to EUR (the reporting currency). The segment contributed EUR 14,173 to 2016 group EBIT.

The net financial expenses showed a scale change due to interest on Senior Secured Notes in 2016, not present in comparable period. As a result, group 2016 net profit for the period reached EUR 14,748 thousand.

TABLE 16 CONSOLIDATED STATEMENTS OF PROFIT AND LOSS FOR Q4

'000 EUR	Q4, 2016	Q4, 2015
Revenue	233,784	94,866
Cost of sales	-177,537	-74,475
Profit on sales	**56,247**	**20,391**
Other income	2,850	1,216
Distribution expenses	-29,811	-8,012
General and administrative expenses	-11,763	-3,689
Other expenses	-3,401	-280
Result from operating activities	**14,122**	**9,626**
Financial income	1,151	36
Financial expenses	-8,115	-1,285
Exchange differences on translating foreign operations	-3,804	0
Net financing costs	**-10,768**	**-1,249**
Profit before tax	**3,354**	**8,377**
Income tax expense	-5,152	-1,401
Net profit for the reporting period	**-1,798**	**6,976**

Attributable to non-controlling interests	0	0
Attributable to shareholders of the parent	-1,798	6,976
Other comprehensive income		
Actuarial gains and losses	4,082	0
Cash Flow hedge - settlement of the forward hedging the purchase of shares	9,568	-2,186
Items that will not be reclassified to profit or loss	**13,650**	**-2,186**
Exchange rate differences	-9,965	0
Foreign currency differences on translating foreign operations	33	0
Cash flow hedges- effective portion of changes in fair value	-882	-2,304
Cash flow hedges- net change in fair value reclassified to current year profit or loss	-130	-1,157
Items that are or may be reclassified to profit or loss	**-10,944**	**-1,147**
Other comprehensive income	**2,706**	**-3,333**
Total comprehensive income for the period	**1 387**	**3,643**
Comprehensive income for the period attributable to:		
Shareholders of the Company	1 387	3,643
Non-controlling interests	0	0
Total comprehensive income for the period	**1 387**	**3,643**
Basic and diluted earnings per share (EUR)	-0,03	0,14
Average number of shares in the reporting period	64,701,007	49,624,000

3.2.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 17: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

'000 EUR	Dec. 31, 2016	Dec. 31, 2015
Assets		
Property, plant and equipment	548,863	163,803
Intangible assets	83,091	957
Goodwill	66,171	25,289
Other non-current assets	2	12
Long term investments	515	18
Investment property	875	905
Deferred tax asset	5,948	4,770
Advances paid on fixed assets	3,016	7,079
Government grants receivable	12,921	21,152
Non-current assets	**721,402**	**223,985**
Inventories	91,903	36,635
Trade and other receivables	42,531	113,084
Income tax receivable	376	101
Cash and cash equivalents	97,726	20,720

Government grants receivable	642	1,147
Other short-term financial assets	-	767
Fair value of hedging instruments	-	640
Current assets	**233,178**	**173,094**
Total assets	**954,580**	**397,079**
Equity and liabilities		
Equity		
Share capital	6,692	5,573
Share premium	146,375	68,250
Statutory reserves fund	91,801	90,808
Reserves	(13 937)	(2 210)
Unregistered share capital	-	75,573
Retained earnings	40,324	41,154
Total equity attributable to owners of the Company	**271,255**	**279,148**
Total equity	**271,255**	**279,148**
Liabilities		
Loans and borrowings	329,762	9,598
Employee related payables	56,893	2,267
Provisions	3,694	201
Deferred tax liabilities	64,176	3,749
Fair value of hedging instruments	-	107
Deferred income from government grants	17,439	26,539
Other non-current liabilities	239	-
Non-current liabilities	**472,203**	**42,461**
Loans and borrowings	10,898	5,089
Income tax payable	10,559	853
Trade and other payables	161,414	62,476
Employee related payable	22,118	5,624
Provisions	5,132	--
Deferred income from government grants	1,001	1,428
Current liabilities	**211,122**	**75,470**
Total liabilities	**683,325**	**117,931**
Total equity and liabilities	**954,580**	**397,079**

Changes within group's structure altered the composition of statement of financial position. Growth in property, plant and equipment resulted in non-current assets constituting 76% of total assets in 2016 versus 56% in 2015. A scale change in the operations increased the value of inventory held YoY. However, as a result of the group reconstructure and elimination of intergroup accounts, trade and other receivables more than halved YoY, reaching EUR 42,531 thousand at the end of 2016.

Group's total equity remained at similar levels in annual comparison reaching EUR 271,255 thousand at the end of 2016. Total equity represented 28.4% of total equity and liabilities in 2016, compared to 70% in 2015. This corresponded with changes on the asset side of the statement of financial position. The proportion of non-current liabilities within equity and liabilities grew YoY, reaching 50% in 2016 versus 11% in 2015. The key reason were changes in financing. The current group depends more on long-term interest bearing debt than equity.

3.2.3. CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 18: CONSOLIDATED STATEMENT OF CASH FLOWS

'000 EUR	2016	2015
Net profit for the reporting year	**14,748**	**26,810**
Adjustments for:	115,789	34,293
Depreciation and amortisation	71,360	15,395
Foreign exchange gains	(1,664)	(1,335)
Interest for the period	26,028	2,457
Loss on investing activities	181	13
Income tax disclosed in profit or loss of the period	(1,682)	6,300
Amortisation of government grants	(1,402)	(1,074)
Result on forward contracts	(47)	1,283
Increase/(decrease) in exchange differences on translating foreign operations	(694)	109
Other adjustments	0	137
Changes in:		0
- trade and other receivables	3,566	(2,322)
- inventories	3,537	5,931
- trade and other payables	10,915	7,554
- employee benefit obligations	-1,208	(165)
- provisions	6,899	10
Cash flows from operating activities	**130,537**	**61,103**
Interest received	0	53
Income tax paid	(7,733)	(4,428)
Net cash provided by operating activities	**122,804**	**56,728**
Cash flows from investing activities		
Disposal of property, plant and equipment	132	71
Acquisition of intangible assets and property, plant and equipment	(53,580)	(26,879)
Income from disposal of discontinued operations	0	3,505
Repayment of loan by other entities	729	956
Acquisition of the subsidiary, net of cash acquired	(9,637)	(105)
Interest received	83	83
Expenditures related to settlement of derivatives	0	(1,522)
Net cash used in investing activities	**(62,273)**	**(23,891)**
Cash flows from financing activities		
Repayment of borrowings and other debt instruments	(22,272)	(10,932)

Transaction costs related to increase of share capital	-	(3,181)
Share issue	80,864	
Dividend payments	(14,585)	
Acquisition of non-controlling interests	0	-
Increase in borrowing and other debt instruments	0	-
Interest paid	(27,635)	(2,028)
Other financing activities	92	
Net cash provided by/used in financing activities	**16,464**	**(16,141)**
Increase in cash	76,995	16,696
Cash at beginning of the period	20,720	4,332
Currency translation adjustment	11	(308)
Cash at end of the period	**97,726**	**20,720**

The Group has generated cash within 2016, both from the operating as well as total level. The operating cash flow reached EUR 122,804 thousand in 2016 and was supported by working capital changes. The latter showed favorable changes on all of the three most important lines: receivables, inventories and payables.

The investing cash flow was EUR 62,273 thousand negative in 2016 and encompassed capital expenditures and acquisition of a subsidiary. Capital expenditures were lower than depreciation and amortization, as the latter was favorably affected by Group's changes (higher value of assets). The segmental split of capital expenditures reveals a balanced split between the East part (EUR 28,426 thousand, 6% higher YoY) and the West part, which invested EUR 24,937 thousand in 2016.

Financing cash flow was EUR 16,464 thousand positive in 2016. Equity issuance proceeds of EUR 80,864 thousand were partially used to repay borrowings. The financial situation of the Group was strong and a dividend of EUR 14,585 (from 2015 earnings) was paid out in 2016. Group's total cash flow reached EUR 76,995 thousand in 2016.

3.2.4. KEY FINANCIAL RATIOS – CAPITAL GROUP

Below we present key financial ratios describing the Group's performance:

TABLE 19: KEY FINANCIAL RATIOS DESCRIBING THE GROUP'S PERFORMANCE

	Definition		2016 w/o 19 days	2015
Liquid funds		mEUR	97.7	20.7
Net debt	Financial debt - liquid funds	mEUR	242.9	-6.0
Net leverage	Net debt/ sust. EBITDA (LTM)	factor	1.6	-0.1
Equity ratio	Equity/ balance sheet totals	%	28.4%	70.3%
Gearing	Net debt/ equity	factor	0.9	0.0
Sustainable EBITDA (LTM)	Profit from operations + depreciation + amortization - unsustainable items	mEUR	147.8	54.5
Interest cover	sust. EBITDA/ net finance charges	factor	5.69	21.0
ROCE	EBIT (LTM)/ Capital employed	%	5.4%	16.2%
ROA	Net profit (LTM) / total assets at the end of the period	%	1.5%	6.8%
ROE	Net profit (LTM)/ equity at the end of the period	%	5.4%	9.6%

Similarly to the above described financial statements, comparison of YoY key financial ratios is also limited due to changes within the Group's composition. Still, 2016 marked a visible growth in sustainable EBITDA, which amounted to EUR 147.8 m in 2016 versus EUR 54.5m in 2015. 2016 asset and capital employed based ratios were affected by growing non-current assets and non-current liabilities levels. 2016 net leverage ratio of 1.6x shows that the Group's indebtedness remains at a safe level.

TABLE 20: MARGINS

	Dec. 31, 2016	Dec. 31, 2015
Gross profit margin	23%	20%
EBIT margin	4%	10%
Pre-tax margin	1%	9%
Net income margin	2%	7%

3.2.5. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ITEMS - CAPITAL GROUP

Security

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

As at December 31, 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, Pfleiderer 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 Pfleiderer GmbH.

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 December 31, 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 PCF GmbH (ex. Pfleiderer GmbH) with nominal value of EUR 321,684 thousand 7.875% Senior Secured Notes due 2019 and certain hedging arrangements:

Security interest over shares

Pfleiderer GmbH, Pfleiderer Deutschland GmbH and Pfleiderer Vermögensverwaltung GmbH & Co. KG as pledgors have granted pledges over shares in Pfleiderer GmbH, Pfleiderer Deutschland 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 Deutschland 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 Deutschland 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 Deutschland 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 Deutschland 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 Deutschland GmbH and Pfleiderer Baruth GmbH have also been granted as security.

C) Guarantees by the members of the Group

As at December 31, 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 PCF Gmbh (ex. Pfleiderer GmbH) and due in 2019. These members of the Group are: Pfleiderer Group S.A., Pfleiderer GmbH, Pfleiderer Deutschland 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.

3.3. EXPLANATION OF THE ECONOMIC FINANCIAL DATA DISCLOSED IN THE ANNUAL STANDALONE FINANCIAL STATEMENTS

The 2016 financial situation of Pfleiderer Group S.A. was affected by the contribution in kind of Operational Activity of Pfleiderer Group S.A. to Pfleiderer Grajewo Sp. z o.o. done as of 31 August 2016. Since then, the Company is a holding company. As a result of this transaction 2016 operating results are not comparable to 2015 because they include the results of Operational Activity for eight months only.

Prior to contribution in-kind of Operational Activity, the cost of raw materials and consumables continued to be the largest component of the Company's cost structure, representing 56% of all expenses by kind. This position includes consumption of raw materials used directly in production, such as wood, resin for chipboard production, other chemicals and decorative papers.

Employee benefits expense and services are the second largest component in the Company's cost structure (12% and 11% of all expenses by kind). The high share of services in the overall cost structure results from the fact, that certain auxiliary functions are outsourced and certain types of services are purchased from external companies. Depreciation and amortization continued to constitute 4% of all expenses by kind in 2016.

Significant increase in financial income in 2016 resulted from dividends received from subsidiaries of PLN 216,957 thousand compared to PLN 45,417 thousand in 2015.

Increase in financial expenses in 2016 is attributable to interest cost on intercompany loan taken to finance the acquisition of a subsidiary in January 2016 and on other financial liabilities representing an obligation taken over from Atlantik S.A. (detailed information was disclosed in the notes to stand alone financial statements).

3.3.1. STANDALONE STATEMENT OF PROFIT OR LOSS

TABLE 21: STANDALONE STATEMENT OF PROFIT OR LOSS

	PLN '000		EUR '000	
	2016	2015	2016	2015
Revenue	395,449	648,951	90,623	155,073
Results from operating activity	8,117	37,849	1,860	9,044
Profit before tax	204,868	75,279	46,949	17,989
Net profit for the reporting period	207,056	69,106	47,450	16,514
Basic earnings per share (in PLN/EUR)	3.24	1.39	0.74	0.33
Diluted earnings per share (in PLN/EUR)	3.24	1.39	0.74	0.33
Average PLN/EUR exchange rate			4.3637	4.1848

3.3.2. STANDALONE STATEMENT OF FINANCIAL POSITION

TABLE 22: STANDALONE STATEMENT OF FINANCIAL POSITION

	PLN '000		EUR '000	
	31 Dec., 2016	31 Dec., 2015	31 Dec., 2016	31 Dec., 2015
Total assets	2,224,785	1,467,907	502,890	344,458
Liabilities	973,467	393,005	220,042	92,222
Non-current liabilities	356	8,815	80	2,068
Current liabilities	973 111	384,190	219,962	90,154
Equity	1,251,318	1,074,902	282,848	252,236
Share capital	21,351	16,376	4,826	3,843

Number of shares	64,701,007	49,624,000	64,701,007	49,624,000
Book value per share (in PLN/EUR)	19.34	21.66	4.37	5.08
PLN/EUR exchange rate as at the end of the reporting period			4.4240	4.2615

3.3.3. STANDALONE STATEMENT OF CASH FLOWS

TABLE 23: STANDALONE STATEMENT OF CASH FLOWS

	PLN '000		EUR '000	
	2016	2015	2016	2015
Revenue	395,449	648,951	90,623	155,073
Results from operating activity	8,117	37,849	1,860	9,044
Profit before tax	204,868	75,279	46,949	17,989
Net profit for the reporting period	207,056	69,106	47,450	16,514
Net cash provided by operating activities	30,241	81,828	6,930	19,554
Net cash provided by/ used in investing activities	(405,938)	20,757	(93,026)	4,960
Net cash used in financing activities	349,392	(76,129)	80,068	(18,192)
Total net cash flow	(26,306)	26,456	(6,028)	6,322
Basic earnings per share (in PLN/EUR)	3.24	1.39	0.74	0.33
Diluted earnings per share (in PLN/EUR)	3.24	1.39	0.74	0.33
Average PLN/EUR exchange rate			4.3637	4.1848

3.3.4. STANDALONE KEY FINANCIAL RATIOS – PFLEIDERER GROUP S.A.

TABLE 24: PFLEIDERER GROUP S.A. SALES MARGINS

	2016	2015
Operating margin Operating profit / Revenue	2.1%	5.8%
Pre-tax margin Profit before tax / Revenue	51.81%	11.60 %
Net margin Net profit / Revenue	52.36%	10.65 %

Net and pre-tax margins for 2016 are higher compared to 2015 as a consequence of higher dividends received as explained above.

3.4. NON-RECURRING EVENTS

No non-recurring events which might affect the Group or Pfleiderer Group S.A.'s financial performance occurred in 2016.

3.5. PROJECTED FINANCIAL RESULTS

The Management Board of Pfleiderer Group S.A. has not published projections of financial results or consolidated financial results for the financial year 2016.

3.6. RATINGS

TABLE 25: RATINGS AWARDED TO PFLEIDERER GROUP

	Rating date	Company's long-term rating	Rating outlook
Standard & Poor's Ratings Services	24.03.2017	B+	Positive
Moody's Investors Service	22.03.2017	Ba3	Stable
Standard & Poor's Ratings Services	20.01.2017	B+	Positive
Standard & Poor's Ratings Services	29.01.2016	B	Positive
Moody's Investors Service	26.01.2016	B1	Positive

Moody's: B1 corporate family rating and a B1-PD probability of default rating awarded to Pfleiderer Group S.A.

On January 26, 2016 Moody's Investors Service has assigned a B1 corporate family rating (CFR) and a B1-PD probability of default rating (PDR) to the Company, the new ultimate top company of Pfleiderer Group, upon its successful capital increase through a public offering and reverse takeover of Pfleiderer GmbH financed by the net proceeds from a capital increase, completed on 19 January 2016. Concurrently, Moody's has upgraded to B2 (LGD4) from B3 (LGD4) the rating of the EUR322 million senior secured notes (due 2019), issued by Pfleiderer GmbH. The outlook on all ratings is positive.

The B1 corporate family rating (CFR) assigned to the Company reflects the change in Pfleiderer Group corporate and legal structure following the completion of the Transaction and the Company's intention to reduce the overall indebtedness of the combined Group. According to Moody's, the acquisition of Pfleiderer GmbH by the Company has meaningfully enhanced the Group's credit profile, resulting in the assigned B1 CFR with a positive outlook which is one notch higher than the withdrawn B2 CFR of Pfleiderer GmbH before the reverse takeover by the Company. The assigned B1 CFR and upgrade to B2 of the senior secured notes acknowledge Pfleiderer's financial performance through 2015 and a strengthened position of Pfleiderer's bondholders as a result of an enhanced security package and indirect access to cash flows generated by the Company and its subsidiaries, which had been limited prior to the acquisition.

The rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

S&P long-term corporate credit rating awarded to Pfleiderer Group S.A.

On January 20, 2017, Standard & Poor's Ratings Services raised long-term corporate credit rating on Poland-based wood panels producer Pfleiderer Group S.A. and its wholly-owned Germany-based subsidiary PCF GmbH to 'B+' from 'B' with positive outlook.

At the same time, S&P raised the issue rating of the senior secured notes issued by PCF GmbH to 'B+' from 'B' and affirmed the recovery rating at '4', indicating S&P expectation of average recovery prospects (30%).

The upgrade follows Pfleiderer's recently improving underlying operational performance and our expectation that lower interest and restructuring expenses will result in improving credit metrics in 2017 and 2018.

The rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

3.7. DIVIDEND POLICY

At the end of November 2015, the Management Board revised its dividend policy. It assumes that, starting from the financial year ended 31 December, 2016, the Company, after fulfilling the legal requirements and depending on market conditions, will allocate up to 70% of consolidated net profit for dividend payment.

Dividend payment for 2015

During the Annual General Meeting held on June 29, shareholders of Pfleiderer Group S.A. decided on the distribution of net profit for the year 2015. In accordance with the recommendation of the Management Board, PLN 64,701,007.00, or PLN

1.00 per share were allocated for the payment of the dividend. The remaining part of the profit was passed to the supplementary capital. According to the adopted resolution, the dividend date was 15 July, whereas the dividend payment date was scheduled for 29 July.

In 2016 Pfleiderer Group paid to shareholders nearly PLN 65 million of dividend.

3.8. AUDITOR

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

KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa

ul. Inflancka 4A

00-189 Warszawa, Poland

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

In audited period, the fees due to KPMG Audyt Sp. z o.o. sp. k. related to audit services amounted to PLN 1,174 thousand. These encompassed review of 1Q16 and 1H16 financial statements as well as audit of 2016 stand-alone and group financial statements. The latter was conducted based on agreement dated 18 November 2016. In prior period agreements of 17 July 2015, 12 October 2015 and 12 January 2016 encompassed the review and audit of standalone and consolidated financial statements. The overall remuneration in prior year amounted to PLN 348 thousand.

In audited period, the fees due to KPMG Advisory Spółka z o.o. for consulting and advisory services reached PLN 605 thousand, while fees for assurance services and remaining services due to KPMG Audyt Sp. z o.o. sp. k. amounted to PLN 210 thousand. Additionally, fees due to KPMG AG and KPMG Rechtsanwaltgesellschaft GmbH amounted to EUR 214 thousand.

The amounts of remuneration of KPMG Audyt Sp. z o.o. sp. k. for non-audit services in prior year amounted to PLN 8.080 thousand.

The fees for KPMG AG in Core West segment for audit and review services amounted to EUR 408 thousand. These were conducted based on a frame agreement signed on 8 June 2015. Additionally, other services amounted to EUR 287 thousand. The agreements on that services were signed on 10 November 2015.

3.9. FINANCIAL INSTRUMENTS

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 the effective portion of gains or losses on fair value of hedging instruments (forward transactions) is included in other comprehensive income and presented as a separate equity position "cash flow hedge". The gains or losses previously recognized in other comprehensive income are transferred to profit or loss 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 Pfleiderer GmbH was included in the amount of goodwill recognized on the acquisition date.

Borrowings

As at 31 December 2016, the Group did not carry any borrowings from related parties.

Bank loans and corporate bonds

Use of bank borrowings

TABLE 26: BORROWINGS AND OTHER DEBT INSTRUMENTS

'000 EUR	31 Dec., 2016	31 Dec., 2015
Non-current liabilities		
Non-current portion of interest-bearing bonds	329,762	-
Bank borrowings	-	9,598
Total	**329,762**	**9,598**
Current liabilities		
Current portion of interest-bearing bonds	10,555	5,089
Other interest bearing liabilities	343	-
Total	**10,898**	**5,089**

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

When determining fair values during purchase price allocation for the Pfleiderer Group acquisition, the notes were marked-to-market on the transaction date 19 January 2016 (EUR 332 943 thousand). The premium to fair value has been amounted since then over the term of notes in accordance with the effective interest rate method (EUR 3 181 thousand premium was expensed in 2016). The notes have a carrying value of EUR 329 762 thousand as of 31 December 2016. The short term portion of interest bearing notes relates to accrued interest.

Bank loans

On June 26, 2013, the Parent Company and the subsidiaries: Pfleiderer Prospan S.A. and Pfleiderer 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 Pfleiderer Group S.A. and significant Polish subsidiaries amounting to PLN 200 million and for PCF GmbH and Pfleiderer Deutschland GmbH amounting to EUR 60 million.

On January 19, 2016, an amendment to the RCF Agreement came into force which provided Pfleiderer 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 - Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Polska Sp. z o.o. (previously Pfleiderer Services Sp. z o.o.) - acceded RCF Agreement. At the reporting date this financing was not drawn in cash whilst bank guarantees were issued within this credit line for the total amount of PLN 6,559 thousand respectively. The RCF Agreement provides Pfleiderer Deutschland GmbH and PCF GmbH with up to EUR 60.0 million (Tranche A). This Tranche A is partially drawn for bank guarantees of EUR 2,092 thousand and PLN 1,040 thousand (EUR 236 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.

TABLE 27: FINANCINGS CORE EAST (EXLUDING FACTORING AND OPERATING LEASES)

					31 Dec., 2016		
Lender	Currency	Interest rate	Duration from	Duration to	Credit limit EUR	Drawn amount EUR	Undrawn amount EUR
CORE EAST – RCF							
Bank Millennium S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	2,267	-	2,267

Bank Millennium S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	7,129	-	7,129
Bank Zachodni WBK S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	4,535	-	4,535
Bank Zachodni WBK S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	6,802	-	6,802
PKO Bank Polski S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	4,535	-	4,535
PKO Bank Polski S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	6,802	-	6,802
Alior Bank S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	6,802	-	6,802
Alior Bank S.A. (Ancilary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	4,535	-	4,535
GUARANTEES CORE EAST							
Bank Millenium S.A.	PLN		4 Jul 2014	30 Apr 2019	1,487	1,487	
LIMIT OF CREDIT CARDS EAST							
Bank Millenium S.A.	PLN		4 Jul 2014	30 Apr 2019	453	20	433
Total Core East					**45,347**	**1,507**	**43,840**

TABLE 28: FINANCINGS CORE WEST (EXLUDING FACTORING AND OPERATING LEASES)

Lender	Currency	Interest rate	Duration from	Duration to	Credit limit EUR	31 Dec., 2016	
						Drawn amount EUR	Undrawn amount EUR
CORE WEST – RCF							
BNP Paribas	EUR	EUROIBOR + margin	4 Jul 2014	30 Apr 2019	15,000	-	15,000
KfW	EUR	EUROIBOR + margin	4 Jul 2014	30 Apr 2019	15,000	-	15,000
Commerzbank AG	EUR	EUROIBOR + margin	4 Jul 2014	30 Apr 2019	3,000	-	3,000
Commerzbank AG (Ancillary)	EUR	EUROIBOR + margin	4 Jul 2014	30 Apr 2019	9,672	-	9,672
Deutsche Bank AG	EUR	EUROIBOR + margin	4 Jul 2014	30 Apr 2019	7,500	-	7,500
Deutsche Bank AG (Ancillary)	EUR	EUROIBOR + margin	4 Jul 2014	30 Apr 2019	6,000	-	6,000
GUARANTEES CORE WEST							
Commerzbank AG	EUR		4 Jul 2014	30 Apr 2019	2,328	2,328	-
Deutsche Bank AG (Ancillary – Guarantees)	EUR		4 Jul 2014	30 Apr 2019	1,500	-	1,500
Several bond holders	EUR		7 Jul 2014	1 Aug 2019	321,684	321,684	-
Total Core West					**381,684**	**324,012**	**57,672**

Credit agreements for special purposes

Investment facility agreement with PKO BP S.A.

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

This bank loan was fully repaid on February 11, 2016. (As at 31 December 2015, the Group's debt outstanding under this facility was PLN 62,626 thousand).

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.

Revolving Facility Agreement

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

- PCF GmbH, Pfleiderer Services GmbH, Pfleiderer Deutschland 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 Silekol Sp. z o.o.

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

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

and

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

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

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

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

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

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

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

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

Stand Alone

Loans – Pfleiderer Group S.A.

Loans advanced:

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

As at 31 December 2016, the Company has loan receivables of PLN 103,069 thousand granted to subsidiary Pfleiderer MDF Sp. z o.o. (loans granted to Pfleiderer MDF Sp. z o.o. in 2016 amounted to PLN 98,000 thousand, whereas loan repaid by Pfleiderer MDF Sp. z o.o. amounted to 9,500 thousand). Interest on loans are accrued on a monthly basis and presented as financial income. The loan granted to Pfleiderer MDF Sp. z o.o. is denominated in PLN and bear interests at 1M WIBOR rate plus margin. The date of expiry of the agreement and its full repayment has been established as 28 February 2019.

Liabilities under borrowings from related parties

On 5 October 2015, Pfleiderer Group S.A. in order to finance the acquisition of a subsidiary, entered into a loan agreement with Pfleiderer Service GmbH. Transfer of funds in the amount of EUR 43,587 thousand (PLN 193,919 thousand) took place in January 2016. Both parties can terminate the agreement at any time with 3 month notice period. The amount of indebtness under the loan amounted to EUR 44 848 thousand (PLN 198 407 thousand) as at 31 December 2016.

In connection with the acquisition of a subsidiary Pfleiderer GmbH, on 5 October 2015 Pfleiderer Group S.A. has signed an agreement with Atlantik S.A., under which Pfleiderer Group S.A. took over an obligation of Atlantik S.A. representing proceeds from sale of Pfleiderer Group S.A. shares held by Pfleiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A. The amount of debt due on 31 December 2016 amounted to EUR 138 883 thousand (PLN 614 418 thousand).

Defaults under borrowing agreements whrere no remedial action was taken before the end of the reporting period

As at 31 December 2016, no such events occurred.

Derivatives

Further to contribution in kind of Operational Activity of the Company to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016, the Company is no longer exposed to currency risk related to business transactions. During first 8 months of 2016 forward contracts were executed in order to hedge currency risk related to sale of products in foreign currencies. The Company applied hedge accounting. Additionally the Company hedged the payment of the purchase price for Pfleiderer GmbH shares. As of 31 August 2016 all open forward contracts were transferred within the contribution in kind to Pfleiderer Grajewo Sp. z o.o. and subsequently on 29 December 2016 within division through separation of Pfleiderer Grajewo Sp. z o.o. to Pfleiderer Polska Sp. z o.o.

Notes; use of proceeds until the date of this Report

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

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

As at 31 December 2016, the Company's debt under issued notes totaled PLN 126,901 thousand. The notes are used to optimize the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

After 31 December 2016, Pfleiderer Group S.A. has rolled over commercial papers in the form of short-term notes on 17 January 2017 and 15 February 2017.

Use of issuance

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

3.10. MANAGEMENT OF THE PFLEIDERER GROUP FINANCIAL RESOURCES IN 2016

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

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

On 27 June 2014, PCF GmbH issued 7.875% Senior Secured Notes due 2019 with a face value of EUR 321 684 thousand. End of December 2015 the carrying amount of the bond was EUR 304.954 thousand. When determining fair values during purchase price allocation for the project Pinehurst (Pfleiderer Group takeover) the bond was marked-to-market on the transaction date 19 January 2016 (EUR 332 943m). The step-up entry was amortized since then over the term of the high yield bonds according to effective interest rate method (EUR 3 181 thousand), which amounted to EUR 329 762 thousand as of 31 December 2016. Short term portion of interest bearing bonds relates to accrued interest.

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

TABLE 29: THE STRUCTURE OF FINANCING OF THE GROUP'S ASSETS AS AT THE REPORTING DATE

000' EUR	31 Dec., 2016	31 Dec., 2015
Equity (attributable to the owners of the Company)	271,255	279 148
Total Equity	271,255	279 148
Non-current liabilities	472 203	42 461
Long term capital (total equity + non-current liabilities)	743 458	321 609
Current liabilities	211 122	75 470

Financial standing of Pfleiderer Group S.A. - *Stand alone*

TABLE 30: THE STRUCTURE OF FINANCING OF THE COMPANY'S ASSETS AS AT THE REPORTING DATE

000' PLN	31 Dec., 2016	31 Dec., 2015
Total equity	1,251,318	1,074,902
Non-current liabilities	356	8,815
Long-term capital (total equity + non-current liabilities)	1,251,674	1,083,717
Current liabilities	973,111	384,190

In 2016, Pfleiderer Group S.A. financed its operations with own funds and, to a certain extent, with bank borrowings and issues of notes acquired by Pfleiderer Prospan S.A. Additionally the Company received PLN 216,957 thousand dividends from subsidiaries and paid out PLN 64,701 dividends to its shareholders. Further to contribution in kind of Operational Activity of the Company to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016, the Company is a pure holding company.

The Company's current liabilities line consists of debt outstanding under short-term notes in issue amounting to PLN 126,901 thousand, intercompany loan taken to finance the acquisition of a subsidiary of PLN 198,407 thousand and other financial liabilities of PLN 614, 418 representing an obligation taken over from Atlantik S.A. (detailed information was disclosed in the notes to stand alone financial statements).

Further to contribution in kind of Operational Activity the Company had no factoring programme in place as at 31 December 2016.

3.11. FINANCIAL RISKS RELATED TO THE PFLEIDERER GROUP'S OPERATIONS

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

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

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

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

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

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

Derivative (currency forwards) transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing relevant documentation.

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

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

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

Credit risk

Transactions which expose the Pfleiderer Group companies to credit risk concern trade receivables. The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and factoring (Segment East) and ABSC program (Segment West). In 2016, over 77% of the Group's trade receivables were secured with insurance. In the event of insolvency of customers who have insurance coverage, compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

Interest rate risk

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

Currency risk

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

In 2016, the Pfleiderer Group entered into a number of EUR/PLN forward contracts to hedge against currency risk related to planned trade transactions.

Liquidity and material cash-flow disruptions risk

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

The Group monitors its liquidity on an ongoing basis, both with respect to short-term liquidity and long-term liquidity.

TABLE 31: STRUCTURE OF ASSETS, EQUITY AND LIABILITIES DISCLOSED IN THE CONSOLIDATED BALANCE SHEET

	Current ratio	Quick ratio	Average collection period	Average payment period	Inventory turnover ratio
	Current Assets / Current liabilities	Receivables + cash / Current liabilities	Average trade and other receivables / Revenue /360	Average trade and other payables / Cost of goods sold /360	Average inventories / Cost of goods sold /360
31 Dec 2016	1.1	0.7	30	55 days**)	33 days
31 Dec 2015	1.2 *)	0.6*)	27 days*)	63 days***)	48 days

* 2015 current assets and average trade and other receivables balances were adjusted for receivables from issuance of series E shares of PLN 361,848 thousand. ** 2016 trade and other payables balances were adjusted for PLN 22,245 thousand real estate tax liability. *** 2015 trade and payables balances were adjusted for PLN 24,458 thousand of shares issuance costs. Detailed information about all these balances were disclosed in the notes to financial statements.

Stand alone

Financial risks related to the Pfeiderer Group S.A. operations

Credit risk

Further to contribution in kind of Operational Activity of the Pfleiderer Group S.A. to Pfleiderer Polska Sp. z o.o. its credit risk is limited as the Company does not conduct the Operational Activity and does not have trade receivables from external debtors.

The credit risk exposure of the Company includes also the loans granted to its subsidiary, Pfleiderer MDF Sp. z o.o. of PLN 103,069 thousand.

Interest rate risk

Loans granted to Pfleiderer MDF Sp. z o.o. represent the sole floating interest rate instrument at the level of Pfleiderer Group S.A.

Currency risk

Further to contribution in kind of Operational Activity of the Company to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016, the Company is no longer exposed to currency risk related to business transactions. During first 8 months of 2016 forward contracts were executed in order to hedge currency risk related to sale of products in foreign currencies. Additionally the Company hedged the payment of the purchase price for Pfleiderer GmbH shares.

Currency risk in Pfleiderer Group S.A. is connected with euro denominated intercompany loan taken to finance the acquisition of a subsidiary of EUR 44,848 and other financial liabilities of EUR 138,883 representing an obligation taken over from Atlantik S.A. (detailed information was disclosed in the notes to stand alone financial statements).

The risk of changes in the prices of financial instruments

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

Liquidity risk and risk of significant disruptions in cash flows

The Company is protected against any material cash-flow disruptions thanks to credit facilities available at any time. Material cash-flow disruptions were also unlikely due to customer diversification in first 8 months of the year and pure holding function for the remaining months of 2016. All extraordinary expenditure is always planned well ahead and accounted for in the liquidity management process.

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

As at 31 December 2016, the Company did not have any bank loan liabilities. As at 31 December 2016, unused credit lines amounted to PLN 191,441 thousand. Credit limits of PLN 200,000 thousand are available until 30 April 2019. The Company holds cash in the amount of PLN 4,677 thousand.

In 2016, the Company also financed its operations by issuing short-term notes which were acquired by its subsidiary Pfleiderer Prospan S.A. After redemption, a new series of short-term notes is usually issued for another period, which provides a constant source of financing for the Company.

The Company's current liabilities as of 31 December 2016 are significantly higher compared to 2015 as a result of intercompany loan taken to finance the acquisition of a subsidiary of PLN 198,407 thousand and other financial liabilities of PLN 614, 418 representing an obligation taken over from Atlantik S.A. (detailed information was disclosed in the notes to stand alone financial statements). Both trade receivables and trade payables balances as of 31 December 2016 are lower compared to prior year as a result of contribution in kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. Consequently the current and quick ratios are significantly lower YoY.

SHARES AND SHAREHOLDING STRUCTURE

4. SHARES AND SHAREHOLDING STRUCTURE

4.1. SHAREHOLDING STRUCTURE

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

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

TABLE 32: THE SHAREHOLDER STRUCTURE DIRECTLY AFTER PUBLIC OFFERING

Shareholding 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%**

TABLE 33: THE SUBSIDIARIES OF STRATEGIC VALUE PARTNERS LLC DIRECTLY HOLDING SHARES OF PFLEIDERER GROUP S.A.

	Number of shares	Percentage in equity	Number of votes on GM	Percentage of votes on GM
Yellow Saphire S.a.r.l.	6,172,705	9.54%	6,172,705	9.54%
Brookside S.a.r.l.	5,076,738	7.85%	5,076,738	7.85%
Field Point IV S.a.r.l.	3,079,810	4.76%	3,079,810	4.76%
Kings Forest S.a.r.l.	1,745,520	2.70%	1,745,520	2.70%
Field Point V S.a.r.l.	449,409	0.69%	449,409	0.69%
Field Point Acqusition S.a.r.l.	248,714	0.38%	248,714	0.38%
Total	**16,772,896**	**25.92%**	**16,772,896**	**25.92%**

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

1. Strategic Value Partners LLC (direct purchase of shares),
2. Brookside S.a.r.l. oraz Yellow Saphire S.a.r.l. (indirect purchase of shares).

TABLE 34: CHANGE IN THE STRUCTURE OF THE SHAREHOLDERS FROM DECEMBER 31, 2015 TO THE REPORTING DATE DECEMBER 31, 2016

Shareholding structure	31 Dec., 2015		31 Dec., 2016	
	Number of shares	Ownership interest	Number of shares	Ownership interest
Strategic Value Partners LLC	0	0%	16,772,896	25.92%
Atlantik S.A.	0	0%	16,374,497	25.31%
Nationale Nederlanden OFE	2,639,144	5,32%	6,400,000	9.89%
Aviva OFE Aviva BZ WBK	4,928,816	9.93%	6,000,000	9.27%
Pfleiderer Service GmbH	32,308,176	65,11%	0	0%

Other shareholders	9,747,864	19,64%	19,153,614	29.60%
Total	**49,624,000**	**100,00%**	**64,701,007**	100.00%

Changes in shareholder structure after the reporting period

Shareholder structure as of the reporting date is as follows:

TABLE 35: SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2016*

	Number of shares	Percentage in equity	Number of votes on GM	Percentage of votes on 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	29.61%	19,153,614	29.61%
Total	**64,701,007**	**100.00%**	**64,701,007**	**100.00%**

* according to latest available information

** Subsidiaries of Strategic Value Partners LLC directly holding shares in Pfleiderer Group S.A.:

Shareholder structure as at 4 Feb., 2016*	Number of shares	Percentage in equity	Number of votes on GM	Percentage of votes on GM
Yellow Saphire S.a.r.l.	6,172,705	9.54%	6,172,705	9.54%
Brookside S.a.r.l.	5,076,738	7.85%	5,076,738	7.85%
Field Point IV S.a.r.l.	3,079,810	4.76%	3,079,810	4.76%
Kings Forest S.a.r.l.	1,745,520	2.70%	1,745,520	2.70%
Field Point V S.a.r.l.	449,409	0.69%	449,409	0.69%
Field Point Acqusition S.a.r.l.	248,714	0.38%	248,714	0.38%
Total	**16,772,896**	**25.92%**	**16,772,896**	**25.92%**

* according to latest available information

Between the reporting date and the date of release of financial statements several changes within the shareholder structure took place.

TABLE 36: CHANGES WITHIN THE SHAREHOLDER STRUCTURE BETWEEN THE REPORTING DATE AND THE DATE OF RELEASE OF FINANCIAL STATEMENTS

Shareholder	Number of shares	% of equity
Strategic Value Partners LLC* as at 31.12.2016	16,772,896	25.92%
12.01.2017 purchase of shares – through subsidiaries	1,241,559	1.92%
10.02.2017 purchase of shares – through subsidiaries	1,168,694	1.81%
Strategic Value Partners LLC* current date	19,183,149	29.65%
Atlantik S.A. as at 31.12.2016	16,374,497	25.31%
12.01.2017 sale of shares	- 1,241,559	-1.92%
10.02.2017 sale of shares	- 1,168,694	-1.81%
17.02.2017 transfer of shares	- 613,913	-0.95%
20.02.2017 transfer of shares	- 875,770	-1.35%

Atlantik S.A. current date	12,474,561	19.28%
Other	31,553,614	48.77%
17.02.2017 transfer of shares	613,913	0.95%
20.02.2017 transfer of shares	875,770	1.35%
Other shareholders current date	33,043,297	51.07%
Total	64,701,007	100.00%

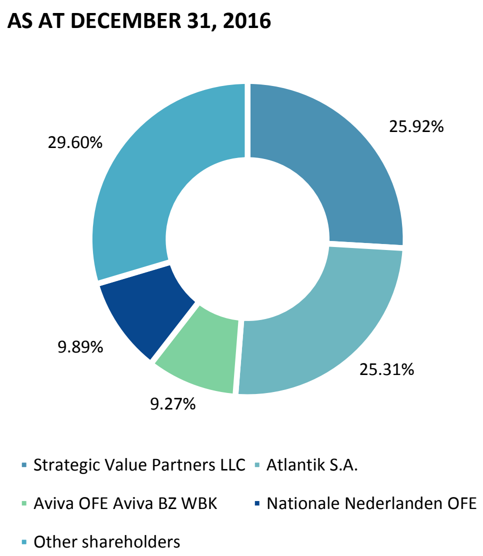
As a result, the shareholder structure at the date of release of financial statements was as follows:

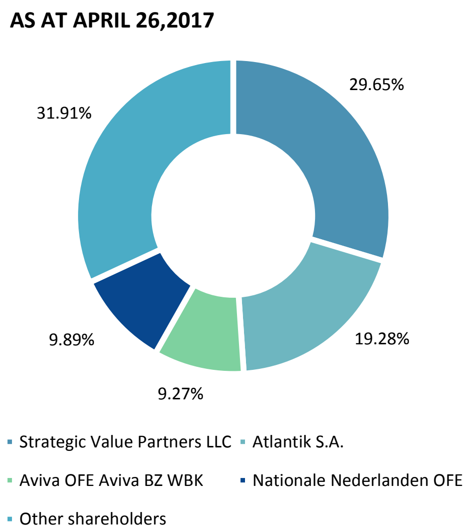
TABLE 37: SHAREHOLDER STRUCTURE AS OF 26 APRIL 2017*

	Number of shares	% of equity	Number of votes on GM	Percentage of votes on GM
Strategic Value Partners LLC	19,183,149	29.65%	19,183,149	29.65%
Atlantik S.A.	12,474,561	19.28%	12,474,561	19.28%
Aviva OFE Aviva BZ WBK	6,000,000	9.27%	6,000,000	9.27%
Nationale-Nederlanden OFE	6,400,000	9.89%	6,400,000	9.89%
Other shareholders	20,643,297	31.91%	20,643,297	31.91%
Total	64,701,007	100.00%	64,701,007	100.00%

* according to latest available information

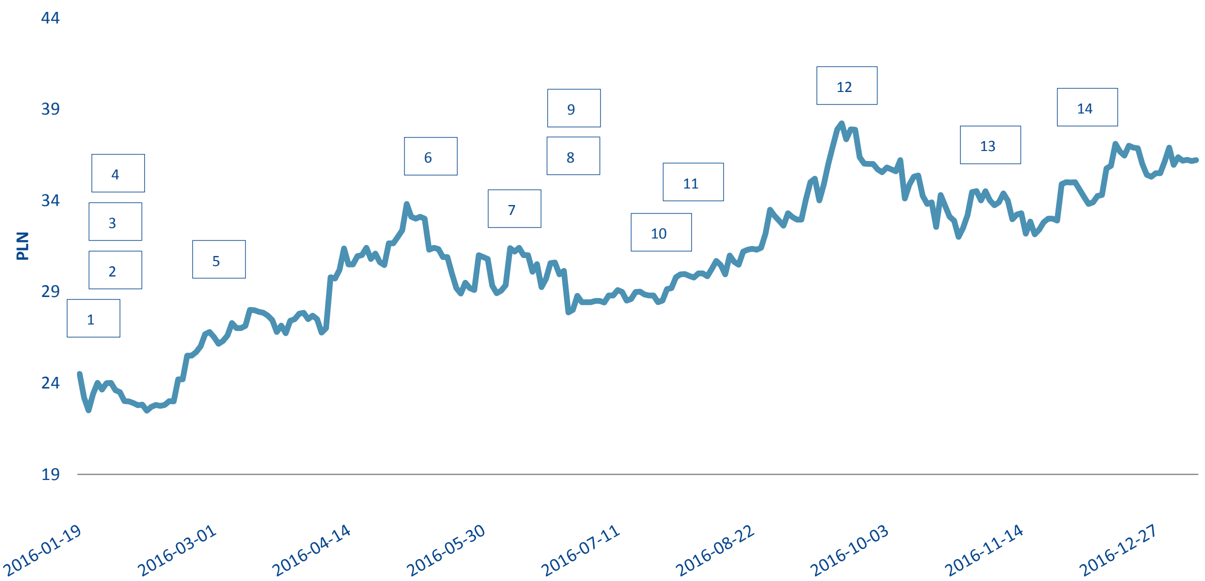
FIGURE 17: SHAREHOLDING STRUCTURE





4.2. COMPANY STOCK PRICES ON THE WARSAW STOCK EXCHANGE

FIGURE 18: PFLEIDERER GROUP QUOTATIONS IN 2016



1. 19 January: Pfleiderer Grajewo S.A. (currently Pfleiderer Group S.A.) successfully completes the acquisition of Pfleiderer GmbH and creates the new Pfleiderer Group
2. 26 January: MOODY'S assigns a B1 corporate family rating
3. 27 January: registration of series E shares of Pfleiderer Grajewo S.A. (currently Pfleiderer Group S.A.)
4. 29 January: S&P assigns its 'B' corporate credit rating to Pfleiderer Grajewo S.A. (currently Pfleiderer Group S.A.)
5. 20 March: The publication of the annual financial results for 2015
6. 11 May: The publication of the quarterly financial results for the Q1, 2016
7. 1 June: decision regarding commencement to the process of internal reorganization of the capital group of Pfleiderer Grajewo S.A. in Poland (currently Pfleiderer Group S.A.)
8. 28 June: ending the negotiations regarding purchase of chipboard manufacturing business in Germany without signing the purchase agreement
9. 29 June: The General Meeting of Shareholders resolves dividend payment for 2015
10. 29 July: Dividend payment date
11. 11 August: The publication of the half-year financial results for the IH2016
12. 30 September: registration of change of the business name and registered seat of the Company

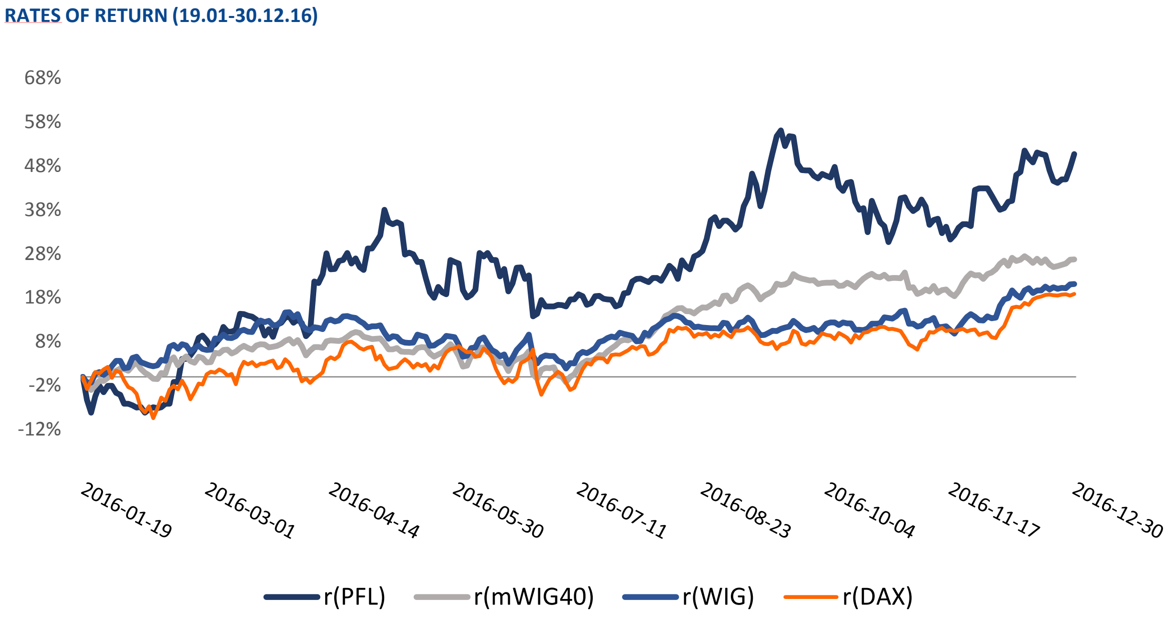
13 7 November: The publication of the quarterly financial results for the Q3, 2016,

14 8 December: Execution of commitment letters in respect of the refinancing of existing indebtedness

TABLE 38: PFLEIDERER GROUP ON THE WSE – BASIC COMPANY DATA

Company data	
Company name	Pfleiderer Group
Short name	PFLEIDER
Ticker	PFL
ISIN	PLZPW0000017
Market capitalization (as of 31.12.2016)	PLN 2,360 m
Free float	48.77%
Number of shares	64,701,007
Indices	mWIG40 (1.728%) WIG (0.407%) WIG-Poland (0.420%)

FIGURE 19: CHANGES IN PFLEIDERER GROUP QUOTATIONS IN COMPARISON WITH CHANGES IN INDICES



- The market capitalization of the company increased in 2016 by 48.4%
- Rates of return from the Company's shares were correlated with market indexes, but from April the share price of the company has been increasing faster than indexes
- Since July 2016 the rate of return from Pfleiderer Group has been correlated with market indexes again
- A significant increase of share value was noticeable in September and again in December

4.3. INVESTOR RELATIONS IN PFLEIDERER GROUP

In 2016 Pfleiderer Group performed a number of activities to improve efficient communication with the capital market.

Activities dedicated to institutional investors – summary

over **30**	Representatives from capital market participated in Capital Market Day in Wieruszów
over **130**	Analysts and fund managers present at quarterly conferences (Q1, H1 & Q3 2016)
Approx. **165**	Meetings with institutional investors organized by different brokers
8	Brokerage houses coverage

Activities dedicated to individual investors

- Participation in the 20th edition of WallStreet conference organized by Individual Investors Association).
- The Pfleiderer Group was among the main partners of the first edition of the Capital Market Forum at the WSE - over 300 participants and 30 guest speakers.
- Over 40 individual investors present on Investor's Day. Its aim was to present the Pfleiderer Group's business model to investors, by both the company representatives and the capital market specialists observing wood and furniture industry on day to day basis. The promotional campaign of event in various channels has helped to reach to many new individual investors.
- Publication of the summary concerning the results on the IR website, the so called executive summary or factsheet.

In March 2017, Pfleiderer Group won the prestigious ranking "Listed Company of the Year 2016" ("Giełdowa Spółka Roku 2016")

One year after the transaction of re-IPO and Group integration of the East and West business core, Pfleiderer Group won the prestigious ranking "Listed Company of the Year", category: "Investor Relations", organised by the "Puls Biznesu" daily and TNS Polska.

The competition "Listed Company of the Year" is the oldest and most prestigious ranking on the market and the prizes are awarded by about 100 brokers, analysts and investment advisors selected randomly. The criteria considered by the experts include the competencies of the management board, prospects for development and investor relations. Honest and explicit communication policy of the Pfleiderer Group, as well as its proactive attitude using traditional and modern communication tools in relations with the Group's investors resulted in the 1st place in the Investor Relations category.

4.4. RECOMMENDATIONS

During the last year eight analytical reports have been published by the most known Polish brokerage houses and other financial institutions.

TABLE 39: RECOMMENDATIONS FOR PFLEIDERER GROUP SHARES

Target price (PLN)	Recommendation	Share Price on the date of the report (PLN)	Institution	Date
43.50	Hold	43.36	DM BZ WBK	06.02.2017
40.25	Hold	36.90	DM Noble Securities	19.12.2016
41.90	Buy	33.90	DM BZ WBK	04.11.2016
42.40	Buy	34.00	DM BZ WBK	08.09.2016

39.30	Buy	31.20	Wood &Company	19.08.2016
38.40	Buy	28.51	ING	13.07.2016
31.00	Hold	28.42	DM PKO BP	30.06.2016
38.12	Buy	28.91	DM Noble Securities	03.06.2016
40.50	Buy	31.00	DM BDM	27.04.2016
36.00	Buy	30.45	Deutsche Bank	26.04.2016
45.90	Buy	29.48	DM Trigon	08.04.2016

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A.
AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

CORPORATE GOVERNANCE

5. CORPORATE GOVERNANCE

5.1. CORPORATE GOVERNANCE RULES USED IN THE COMPANY

Pfleiderer Group S.A. follows the rules provided for in the code of corporate governance “Best Practice of GPW Listed Companies 2016”, which entered into force on 1 January 2016.

Furthermore the Company explains that neither the structure of shareholders of the Company nor the expectations of shareholders of the Company justify providing the technical infrastructure necessary for a General Meeting to proceed using electronic communication means.

5.2. MAJOR SHAREHOLDERS

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

TABLE 40: MAJOR SHAREHOLDERS OF PFLEIDERER GROUP*

Shareholding structure as of 26 April 2017	Number of shares	% of equity	Number of votes on GM	Percentage of votes on GM
Strategic Value Partners LLC *	19,183,149	29.65%	19,183,149	29.65%
Atlantik S.A.	12,474,561	19.28%	12,474,561	19.28%
Aviva OFE Aviva BZ WBK	6,000,000	9.27%	6,000,000	9.27%
Nationale-Nederlanden OFE	6,400,000	9.89%	6,400,000	9.89%
Other shareholders	20,643,297	31.91%	20,643,297	31.91%
Total	64,701,007	100.00%	64,701,007	100.00%

*according to latest available information

5.3. NUMBER OF THE COMPANY’S SHARES HELD BY PERSONS IN MANAGEMENT AND SUPERVISORY BODIES

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

- Member of the Management Board Wojciech Gątkiewicz - 5,400 Company shares.
- Member of the Management Board Rafał Karcz - 3,472 Company shares.

The par value of each share is PLN 0.33.

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

5.4. SHARES HELD BY PFLEIDERER GROUP S.A.

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

5.5. PRIMARY ATTRIBUTES OF THE INTERNAL CONTROLSYSTEM AND COMPLIANCE MANAGEMENT SYSTEMS IN REFERENCE TO PREPARING FINANCIAL STATEMENTS

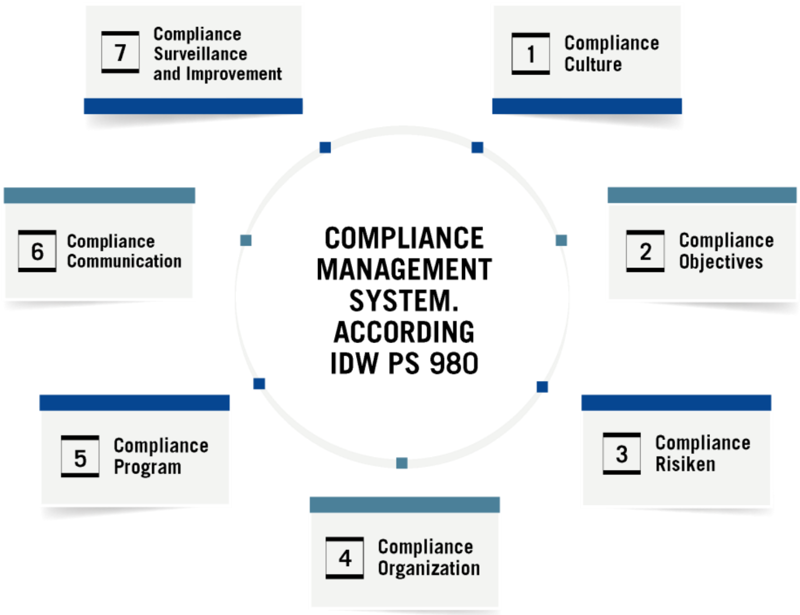
Internal Controlsystem is a process, put into effect by Pfleiderer's Board of Directors, management, and other personnel, designed to provide reasonable assurance that the separate and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management, Internal Controlsystem and Compliance are an integral part of the Group's Governance Risk and Compliance System. The Board of Directors approves both the Internal Controlsystem and the risk policy principles.

The goal of Internal Controlsystem at Pfleiderer is to establish systematically structured organizational measures and controls within the company for the compliance with guidelines and protection against damage that could be caused by a company's own staff or malicious third parties.

Furthermore there are two main objectives of the Internal Controlsystem and Risk Management System for financial reporting. Firstly, that the financial reports disclosed by Pfleiderer are reliable and present accurate information about the company's financial situation. Secondly, that Pfleiderer complies with the applicable laws, regulations, International Financial Reporting Standards (IFRS) as adopted by EU and other requirements for listed companies.

Compliance is an integral part of operations. The corporate bodies, management and each individual employee of Pfleiderer Group are responsible in this respect and set an example for others. The compliance body has both a governance and an advisory function for the corporate bodies, management and the employees of Pfleiderer. The Pfleiderer Compliance Management System is based on auditing standard DWS (PS 989) and comprises seven basic elements:

FIGURE 20: BASIC ELEMENTS CMS BY IDW PS 980



Control environment

In accordance with Article 4a of the Accounting Act of 29 September 1994, the duties of the Board of Directors and the Supervisory Board include ensuring that the financial statements and the activity report meet the requirements prescribed by law. Therefore, both boards control whether the established principles for financial reporting, risk management and internal control are followed and that appropriate relations are maintained with Pfleiderer's auditors.

Pfleiderer's financial reporting process is integrated and serves both external and internal reporting purposes. In order to ensure the application of uniform accounting principles, Pfleiderer adopted the IFRS-based Documentation of Accepted Accounting Policies, which is binding on Pfleiderer and Group companies. Amendments to IFRS are monitored on an ongoing basis, in order to update the Documentation of Accepted Accounting Policies and the scope of disclosures in the financial statements.

Risk assessment

When assessing the risk regarding financial reporting Pfleiderer aims to identify and evaluate the most significant risks affecting the financial reporting at the Group, reporting segment and country levels, which include for example risks related to fraud, risk of loss or misuse of assets. Based on the risk assessment results, control indicators are set to ensure that the fundamental requirements placed on financial reporting are fulfilled. Information on development of essential risk areas, indicators, planned and executed activities to mitigate risks are communicated regularly to the Board.

Control activities

Pfleiderer introduced policies and procedures that help to ensure that the directives regarding the preparation of financial statements are carried out and that necessary actions are taken to address risks to achievement of the Group's objectives. Control activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, are established at all levels and in all functions of the Group. Control activities include also business and financial results analysis on a monthly basis. The Board of Directors reviews interim and annual reports and approves reports before publication.

Monitoring

In order to maintain effective Internal Control System Pfleiderer established information systems that produce reports containing operational, financial and compliance-related information. The reports include not only the internally generated data but also all information that could have any influence on the business operations of Pfleiderer. Both internal, and external communication is open, transparent, accurate and timely.

5.6. COMPANY'S CORPORATE BODIES

5.6.1. GENERAL MEETING OF SHAREHOLDERS

Company's General Meeting of Shareholders can act as Ordinary or Extraordinary General Meeting. The Ordinary General Meeting shall be held within 6 months after the end of each business year. The Extraordinary General Meeting shall be convened by the Management Board upon its own initiative or upon a motion of shareholders representing at least 10% of share capital. The agenda of the General Meeting shall be determined by the Management Board. The Supervisory Board and the shareholders representing at least 10% of share capital may demand adding particular matters to the agenda of General Meeting.

The powers of the General Meeting, pursuant to Article 393 of the Commercial Companies Code include, without limitation, the authority for:

- examination and approval of the management board's report on the company's activities and of financial statements for the preceding financial year, likewise for granting a vote of acceptance to members of company bodies confirming the discharge of their duties;
- taking decisions in respect of claims for redressing a damage inflicted through the formation of the company or exercise of management or supervision;
- transfer or lease of an enterprise or an organized part thereof and establishment of a limited right *in rem* thereon;
- acquisition and transfer of an immovable property, perpetual usufruct, or share in immovable property, except where company articles provide otherwise;
- making an issue of convertible bonds or bonds with the priority warrant and an issue of the subscription warrants referred to in Article 453 § 2 of the Commercial Companies Code;
- acquisition of own shares in the circumstances referred to in Article 362 § 1 point 2 of the Commercial Companies Code and authorization for their acquisition in the circumstances referred to in Article 362 § 1 point 8;
- conclusion of a contact referred to in Article 7 of the Commercial Companies Code.

Pursuant to Article 28 item 28.2. of the articles of association, resolutions of the General Meeting are adopted by a simple majority of votes, unless otherwise provided for by the CCC or the Articles of Association.

The resolutions of General Meeting shall be adopted by majority of three-fourths votes in the following matters:

- amendment to the Articles of Association including issuance of new shares;
- issuance of bonds;
- transfer of enterprise;
- merger with another company;
- dissolving.

Pursuant to Article 28 item 28.4. of the articles of association, without prejudice to the relevant provisions of the Commercial Companies Code, a significant change of the scope of Company's business may take place without buying out the shares held by shareholder who disapproves of such change, if the resolution is adopted with majority of two-thirds votes in the presence of persons representing at least half of share capital.

The resolutions on amendments of the articles of association, which increase the obligations of shareholders or decrease the rights granted personally to particular shareholders shall require a consent of all concerned shareholders.

The General Meetings take place in Warsaw or at the registered office of the Company. The General Meeting shall be opened by the Chairman of the Supervisory Board or by another member of the Supervisory Board and in case of their absence by the President of Management Board or any shareholder present or represented in the General Meeting.

The General Meeting adopts its bylaws. Pursuant to the bylaws of the General Meeting voting in the meeting can be performed by electronic means of counting the votes, including the means based on computer systems. General Meeting can appoint the committees (of motions, resolutions, ballot-counting committee and other) in order to improve the course of General Meeting. General Meeting can resign from appointing the ballot-counting committee in case of voting by electronic means of counting and in case if appointing the ballot-counting committee is redundant due to a small number of present shareholders. In such a case the Chairman of General Meeting shall perform the duties of the ballot-counting committee.

5.6.2. SUPERVISORY BOARD

TABLE 41: THE COMPOSITION OF THE SUPERVISORY BOARD AS AT DECEMBER 31, 2016

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.

The Company's Supervisory Board elected Mr. Jason Clarke on June 29, 2016 as the Vice-Chairman of the Supervisory Board.

The present term of the Supervisory Board began on June 28, 2013 and will expire on June 28, 2018.

The tenures of all the Supervisory Board members incumbent as at December 31, 2016 will expire at the latest on the date of holding the General Meeting which will approve the financial statements for the last full fiscal year during which they held the positions of Supervisory Board members, i.e., on the day of adoption of the resolution on the approval of financial statements for the fiscal year ended December 31, 2017. The tenure of a Supervisory Board member also expires in the event of death, resignation or of being recalled from the Supervisory Board. The tenure of a Supervisory Board members appointed before the end of the given term will expire simultaneously with the tenures of the remaining Supervisory Board members.

Manner of operation and powers of the Supervisory Board and power of the Supervisory Board

The Supervisory Board exercises ongoing supervision over all the areas of activity of the Company.

In accordance with the Articles of Association, the Supervisory Board is made up of five, seven or nine members. Members of the Supervisory Board are appointed by the General Meeting, which also decides on the number of members of the Supervisory Board. The Supervisory Board appoints the Chairman from among its members and, if needed, one or two deputy chairmen and a secretary. Individual members of the Supervisory Board or the entire Supervisory Board may be recalled at any time before the end of the term of office.

Meetings of the Supervisory Board are convened and chaired by the Chairman of the Supervisory Board, or, during his absence, by the Deputy Chairman or person authorized by the Chairman. Additionally, a Supervisory Board meeting can also be convened upon a written motion of each member of the Supervisory Board or upon a written motion of the Management Board. The Supervisory Board meeting shall be convened within a week of the day of the submission of the motion. The meeting shall take place within two weeks of the day of it being convened, provided that the person submitting the motion did not stipulate a later date. Additionally, the Management Board and each member of the Supervisory Board can apply to the Chairman of the Supervisory Board for an additional item to be added to the agenda. The Supervisory Board meeting can also take place without being formally convened, provided that all Supervisory Board members granted their consent at the latest on the day of the Supervisory Board meeting and confirm this by letter or fax, or sign the attendance record. Members of the Supervisory Board can participate in the meeting via teleconference, provided that each Supervisory Board member is able to hear all other members. If required, the Supervisory Board may invite members of the Management Board and other persons to the meeting.

In principle, the Supervisory Board passes its resolutions by an absolute majority of validly cast votes. For the resolutions of the Supervisory Board to be valid, all Supervisory Board members must be duly notified about a meeting and at least one-half of Supervisory Board members must be present at the meeting. As a general rule, a resolution cannot be taken on a matter not included on the agenda, nor can the agenda be amended or supplemented during the meeting to which it relates unless all members of the Supervisory Board are present and no member opposes this. The Chairman of the Supervisory Board or a person authorized by him may also order a written ballot on a draft resolution submitted to the Supervisory Board members in writing. Such resolution submitted in writing is validly adopted provided that (i) more than half of the Supervisory Board members vote in favor of the resolution; and (ii) all Supervisory Board members agree in writing to a written ballot. Signing the resolution by a Supervisory Board member shall be deemed as acceptance of its adoption in writing. A written ballot cannot be used in matters related to proposals for the distribution of profit or related to submitting to the General Meeting a written report on the results of the following actions: examining the annual financial reports, examining and giving the opinion on the Management Board's reports; examining and approving the annual business, financial and marketing plans. Voting at meetings of the Supervisory Board shall take place in an open ballot, except for voting on matters related to: (i) appointing and recalling members of the Management Board; (ii) suspending members of the Management Board; and (iii) appointing and recalling the Chairman, Deputy Chairman and the secretary of the Supervisory Board. The Chairman of the meeting shall order voting by secret ballot upon the request of at least one member of the Supervisory Board present at the meeting, except on matters excluded from secret ballot by Supervisory Board Bylaws. The Supervisory Board may also pass resolutions by circulation or using means of distance communication (subject to Article 388 § 4 of CCC).

The Supervisory Board performs its activities collectively; however it can appoint particular members to individually perform specific supervisory activities. If the Supervisory Board has been elected in voting by separate groups, each group is entitled to delegate one of the elected members to permanently and individually exercise supervision. A Supervisory Board member delegated by a group of shareholders to permanently exercise supervision should submit detailed reports to the Supervisory Board on the performance of such tasks.

In accordance with the Articles of the Association and the Supervisory Board Bylaws, the powers of the Supervisory Board include in particular: (i) examining the annual financial reports and ensuring their verification by auditors appointed by the

Supervisory Board; (ii) examining and giving its opinion on the Management Board's reports; (iii) examining and approving the annual business, financial and marketing plans; (iv) submitting to the General Meeting a written report on the results of actions stipulated in items (i) to (iii) above; (v) giving its opinion on Management Board motions and presenting to the General Meeting proposals for the distribution of profit, including the amount assigned for dividend and proposals for the day of acquiring the right to dividend as well as the day of dividend payment, or the rules of covering losses; (vi) granting its consent for a transaction of sale or purchase of shares or other assets and for obtaining a cash loan if the value of the transaction exceeds 15% of the value of net assets to the most recent balance sheet; (vii) appointing, suspending or recalling members of the Management Board; (viii) delegating members of the Supervisory Board to carry out Management Board activities in case of the suspension or recalling of the entire Management Board or if the Management Board is not able to operate due to other reasons; (ix) granting consent for founding a branch office abroad upon a motion of the Management Board; (x) signing employment contracts with Management Board members and performing on behalf of the Company the rights resulting from employment contracts with Management Board members and signing other contracts with Management Board members; (xi) establishing remuneration for the Management Board members; (xii) adopting the Supervisory Board Bylaws; (xiii) granting opinions on the motions submitted by the Management Board to the General Meeting; (xiv) adopting, each year during the meeting to review the financial statements of the Company, a resolution containing the Supervisory Board's evaluation of the situation of the Company; (xv) approving cutbacks or closure of existing business areas, if the revenue generated by the affected business created at least 5% of the Company Group's total revenue in the last full financial year; (xvi) approving the commencement of new areas of business if the anticipated effect of the new business is planned to create more than 3% of the Company Group's total revenue within the next two years; and (xvii) approving out of budget investments within the Company Group if their individual value exceeds the amount of EUR 5,000,000.

Additionally, the Management Board should inform the Supervisory Board in advance of the following matters: (i) acquisition, disposal and reorganization of companies, shares in companies, companies' enterprises and organized parts of companies' enterprises, when the individual market value – or failing this – the individual book value of these transactions exceeds an amount equal to EUR 1,000,000 (including related-party transactions); (ii) conclusion, amendment or termination of agreements by any company in the Company Group if the agreement's value exceeds 5% of the Company Group's total revenue in the last full financial year; (iii) changing the accounting policies of any of the Company Group's companies; (iv) any supervisory board or management board members appointments within the Company Group's companies; (v) out of budget investments within the Company Group if their individual value exceeds the amount of EUR 1,000,000, (vi) sale and disposal of assets (except for shares in companies) within the Company Group if their individual value exceeds the amount of EUR 1,000,000; (vii) establishing of new or amendment of existing pension systems or schemes within the Company Group; (viii) granting loans, guarantees or any other similar actions creating potential liabilities to persons or entities which are not part of the Company Group in excess of EUR 500,000, except for transactions related to the ordinary course of the business of the Company Group; (ix) institution of legal proceedings or conclusion of court settlements with a value exceeding EUR 250,000; (x) conclusion, amendment or termination of agreements by any company in the Company Group, including but not limited to any agreement concerning financing, such as facility agreements, factoring agreements and issuance of bonds if the agreement's value exceeds EUR 5,000,000, except for the issuance and acquisition of bonds within the Company Group; (xi) any purchase, sale or transfer of real property or establishment or amendment of encumbrances on real property or rights equivalent to real property by any companies in the Company Group if the individual value exceeds EUR 500,000; (xii) election and engagement by any company in the Company Group of any advisor on any disposal of assets if the remuneration of the advisor is to exceed the amount of EUR 100,000; (xiii) conclusion of material amendment or termination of rental, leasing or leasehold contracts by any company in the Company Group, which foresee a term exceeding three years and a rental, leasing or leasehold charge exceeding EUR 300,000 a year; (xiv) conclusion, amendment or termination of agreements by any company in the Company Group concerning the acquisition or sale of commercial intellectual property rights (patents, trademarks, etc.), confidential processes, operating secrets, know-how or other similar rights; conclusion, amendment or termination of license agreements entailing an annual license fee exceeding EUR 300,000; (xv) conclusion, amendment or termination by any company in the Company Group of an agreement that governs the distribution of dividends, management of subsidiaries or transfer of profit by subsidiaries either inside or outside of the Company Group; and (xvi) conclusion, amendment or termination by any company in the Company Group of an agreement requiring notification to or the consent of the Antimonopoly Office. With respect to items (i)-(iii) above, the Management Board shall give the Supervisory Board at least four weeks' prior notice and with respect to items (iv)-(xvi), at least two weeks' prior notice. In addition The Management Board will inform the Supervisory Board, at least one week in advance, of the following matters: (a) the intention to take on an employee in a position who reports directly or is directly accountable to the Management Board or particular members of the Management Board in accordance with the organizational system in force at the Company (so-called Job Level 1); (b) the intention to enter into cooperation on the basis of a civil law agreement with a contractor, being a natural person, who will cooperate directly with the Management Board or particular members of the Management Board.

Every year, the Supervisory Board shall submit to the General Meeting a concise assessment of the situation of the Company, sufficiently early as to enable the company's shareholders to acquaint themselves with it before the General Meeting.

Supervisory Board Committees

The following permanent committees operate in the Supervisory Board of the Parent Company:

a) the Audit Committee
b) the Nomination and Remuneration Committee
c) the Transformation Committee

The committees are appointed by the Supervisory Board from among its members. Each committee selects, a chairman of the committee and a vice-chairman from among its members.

The Audit Committee and the Nomination and Remuneration Committee are composed of at least three members, out of whom at least one should have a status of independence member of the Supervisory Board.

The Transformation Committee is composed of at least two members, out of whom at least one member should have a status of independent member of the Supervisory Board.

Each committee can appoint experts from outside the Supervisory Board, to assist in the performance of its tasks. Committee sessions are organized at the committee chairman's own initiative. Committee resolutions are passed by absolute majority of votes. In the event of equal number of votes, the chairman's vote is decisive. Committees can also pass resolutions in writing or applying communication devices. Resolutions are passed with the presence of a half of the members at the least, provided that all members have been duly notified of the session. Minutes are drawn up from committee sessions. The minutes should be signed by all Supervisory Board members present at the meeting. A copy of the minutes should be sent to all Supervisory Board members.

Audit Committee

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

As at December 31, 2016, the composition of the Audit Committee of the Supervisory Board was as follows:

1. Krzysztof Sędzikowski – Chairman of the Committee
2. Michael F. Keppel – Deputy Chairman of the Committee
3. Jason Clarke – Member of the Committee

Nomination and Remuneration Committee

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

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

As at December 31, 2016, the composition of the Nomination and Remuneration Committee of the Supervisory Board was as follows:

1. Zbigniew Prokopowicz – Chairman of the Committee
2. Jason Clarke – Deputy Chairman of the Committee
3. Michael F. Keppel – Deputy Chairman of the Committee
4. Stefan Wegener - Member of the Committee
5. Jan Woźniak - Member of the Committee

Transformation Committee

On 2 March 2016, the Supervisory Board resolved to establish a Transformation Committee at the Company's Supervisory Board.

The aim of Transformation Committee is to support the implementation of the 'One Pfleiderer' Initiative. The role of the Committee is to gather all necessary information and understanding on the current operations and future plans of the company; this intelligence is supposed to assist the Supervisory Board to take relevant decisions on proposals submitted by the Management Board as well as to approve budget, midterm business plans, M&A projects and any exceptional Capital expenditure. The Committee focuses also on mutual relations between bodies of the Company, its shareholders and other associated stakeholders in the Company, including among others its employees.

The tasks of the Transformation Committee include in particular: (i) recommending to the Supervisory Board decisions related to the Company's group transformation projects, strategic initiatives, commitments as well as approval of target directions, budgets and midterm business plans; (ii) ongoing revision of the group's strategy, corporate documents (including among others the statute and by-laws) and targets in transformation of the capital group and recommend to the Supervisory Board for debate and approval; (iii) review trends and issues of relevance for transformation of the Company's group in order to allow the Company to act quickly with new concepts and solutions and thereby stay competitive; (iv) review the group's transformation commitments, monitor achievement against targets and report to the Supervisory Board when relevant deviations may occur; (v) provide guidance on the overall transformation process for the Company's group in order to achieve the transformation commitments; (vi) ensure that appropriate programs, processes and internal task forces are in place to drive transformation within the Company's group; (vii) monitor and report to the Supervisory Board on performance against the approved transformation mechanism and provide guidance on ways to improve or enhance performance.

As at December 31, 2016, the composition of the Transformation Committee of the Supervisory Board was as follows:

1. Zbigniew Prokopowicz – Chairman of the Committee
2. Stefan Wegener - Member of the Committee

Principles of determining the remuneration of Supervisory Board members

In accordance with the Articles of Association, remuneration for the members of the Supervisory Board is established by the General Meeting.

As at December 31, 2016, the resolution No. 12 of the Ordinary General Meeting dated June 29, 2016 regarding the amendment of the resolution No. 6 of the Extraordinary General Meeting of Pfleiderer Grajewo S.A. dated 19 February 2016 on the determination of the rules on remuneration of the members of the Company's Supervisory Board remains in force.

Pursuant to the above resolution members of the Supervisory Board are entitled to fixed monthly remuneration for performing duties of a member of the Supervisory Board and of a member of the Supervisory Board's committee, as well as to additional remuneration for participation in meetings of the Supervisory Board and meetings of the Supervisory Board's committee.

Fixed monthly gross remuneration for members of the Supervisory Board for performing duties of a member of the Supervisory Board amounts to: (I) for the Chairman - PLN 38,750.00; (II) for the Deputy Chairman – PLN 10,000.00; (III) for each remaining member – PLN 6,667.00.

Fixed monthly gross remuneration for members of the Supervisory Board for performing duties of a member of the Supervisory Board's committee amounts to: (I) for the Chairman of a committee – PLN 10,000.00; (II) for the Deputy Chairman of a committee – PLN 3,500.00; (III) for each remaining member of the committee – PLN 2,667.00.

Additional gross remuneration for members of the Supervisory Board for participation in meetings of the Supervisory Board and meetings of committee is determined as follows: (I) for the Chairman of the Supervisory Board and the Chairman of the Supervisory Board's committee – PLN 9,500.00 per each meeting; (II) for the Deputy Chairman of the Board and the Deputy

Chairman of the Board's committee – PLN 7,000.00 and (III) for each remaining member of the Board and the Board's committee – PLN 6,000.00.

Remuneration of the members of the Board is payable in arrears by the third business day of each consecutive month for the preceding calendar month and is determined on the basis of the number of the Board and its committees' meetings which took place in preceding calendar month and in which member of the Board participated.

Regardless of remuneration payments as described above, the Company reimburses the members of the Board with all duly documented costs incurred by them, which are directly related to the participation in activities of the Board or any of its committees, in particular travelling and lodging expenses.

5.6.3. MANAGEMENT BOARD

TABLE 42: THE COMPOSITION OF THE PFLEIDERER GROUP S.A. MANAGEMENT BOARD AS AT DECEMBER 31, 2016

 **MICHAEL WOLFF** PRESIDENT OF THE MANAGEMENT BOARD	Mr Michael Wolff (born in 1960) is certified Econ. Eng. In his professional career he worked on the management positions in the companies: Helsa Werke GmbH & Co. KG, Glunz AG, Villeroy & Boch AG, Freetime Group Germany GmbH and Optische Werke G. Rodenstock. Since April 2004 Mr Michael Wolff has been working for Pfleiderer Group, where he is a President of Management Board. He has been responsible for the successful restructuring of the Group. Currently, in charge of the process of full integration of East and West segments of the Pfleiderer Group and the development on the international markets. Until January 30th 2015 Mr Michael Wolff held a position of Chairman of Pfleiderer Grajewo SA Supervisory Board.
 **WOJCIECH GĄTKIEWICZ** MEMBER OF THE MANAGEMENT BOARD	Mr. Wojciech Gątkiewicz (1961) completed AGH University of Science and Technology with a title of Master of Engineering. Mr Wojciech Gątkiewicz obtained a title of MBA at Gdańsk Foundation for Management Development with cooperation of Rotterdam School of Management. Mr. Wojciech Gątkiewicz held a position of President of Management Board of Monier Sp. z o.o. (former Lafarge Dachy) from January 2008. In years 2004-2008 Mr. Wojciech Gatkiewicz held a position of President of Management Board of Lafarge Dachy Sp. z o.o. – company established after merger of Braas Polska Sp. z o.o. and Rupp Ceramika Sp. z o.o. Previously Mr. Wojciech Gątkiewicz held in particular the positions of: President of Management Board of Braas Polska Sp. z o.o. (1996-2004) and President of Melaphyre Mine in Czarny Bór (1991-1995). Additionaly Mr Wojciech Gątkiewicz has been a lecturer of strategic management on MBA studies at Gdańsk Foundation for Management Development since 2005 up to the present time.
 **DIRK HARDOW** MEMBER OF THE MANAGEMENT BOARD	Mr. Dirk Hardow (born in 1965) is a graduate of the Technical Univeristy of Hamburg, where in 1993 he graduated in Industrial Engineering & Management ("Hochschulübergreifender Studiengang Wirtschaftsingenieur"). Since 2011 Mr. Dirk Hardow was associated with US corporation Owens – Illinois Inc. Within the Owens – Illinois Inc structures he was i.a. the Vice President of European Operations (August 2011 – May 2015) and since October 2013 he was the Vice – Chairman of the Board of Vetrerie Meridionali, a glass manufacturing company. Furthermore, since June 2015 Mr. Dirk Hardow was the General Manager for South East Europe, where he was responsible for the operations of 11 factories in Italy and Hungary. From October 2011 to April 2013 he was a Member of the Board of Directors of Maltha Groep BV, a glass recycling company. Previously, Mr. Dirk Hardow worked on the management positions i.a. at Cremer-Group, Rohm and Hass Company as well as H.B. Fuller Company.
 **RAFAŁ KARCZ** MEMBER OF THE MANAGEMENT BOARD	Rafał Karcz (born 29.07.1967) graduated from the Katowice Academy of Economics and WEMBA at the University of Minnesota. From 1994, he worked successively as Assistant Director for Finance and Administration at Roltra Morse Poland Sp. z o.o., then as Financial Controller at Continental Can Poland Sp. z o.o. and as Financial Director of Multikino Sp. z o.o. In 1999, he joined Saint-Gobain Sekurit HanGlas Polska Sp. z o.o. as Director for Finance and Administration.

RICHARD MAYER
MEMBER OF THE
MANAGEMENT BOARD

Mr Richard Mayer (born in 1962) has a degree in economics. Mr Richard Mayer in his professional career worked on the management positions in Reichard, CON MOTO, Wacker Neuson SE. In Wacker Neuson SE he also held the position of Member of the Management Board. Since January 2013 Mr Richard Mayer has been working for Pfleiderer Group as a CFO. Until January 19th ,2016 Mr Richard Mayer held a position of Member of Pfleiderer Grajewo Supervisory 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. Rafal Karcz in the Management Board by recalling Mr. Rafal 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.

On September 15, 2016 Mr. Wojciech Gątkiewicz, a member of Management Board of the Company was recalled from the position of Chief Transformation Officer (CTO) and appointed to the position of Chief Sales Officer (CSO) of the Company.

On 2 March 2017 the Supervisory Board of Pfleiderer Group S.A. appointed Thomas Schäbinger as President and Chief Executive Officer (CEO). Mr. Schäbinger succeeds Michael Wolff, Pfleiderer Group's President and CEO who does not wish to extend his contract which expires in December 2017 and who will therefore leave the Group.

Accordingly to ad hoc reports no. 19/2017 and 20/2017 Mr Wolff will step down on the 30th and Mr Schäbinger will take CEO position starting from 1st June (inclusively).

Mr. Schäbinger has been working as CEO of Bundy Refrigeration Group, cooling technology provider since 2015. Between 1998 and 2014 he held several positions in Mondi Europe and International (formerly known as Frantschach) a packaging and paper group with global operations in more than 30 countries and 25,700 employees Previously, Mr. Schäbinger worked in various management positions including at Unilever and at Beiersdorf. He has hands on strategic and operative experience in international operations, sales and procurement based on Lean Six Sigma and Value Management approach.

Manner of the Management Board's functioning and powers of the Management Board

The Management Board represents the Company towards third parties and handles all the affairs of the Company.

The Management Board comprises at least two members. The number of members of the Management Board is established by the Supervisory Board. Pursuant to the Articles of Association, the Supervisory Board appoints the President of Management Board and, upon a motion of the President of Management Board, the remaining members of the Management Board. The President of the Management Board, as well as each of the individual members of the Management Board or the entire Management Board may be recalled at any time by the Supervisory Board, which shall not deprive them of claims arising from the employment contract.

The Management Board passes its resolutions at meetings. Pursuant to the Management Board Bylaws, Management Board meetings are convened at least once a month. Management Board meetings are convened and chaired by the President of the Management Board or, during his absence, by a Management Board member authorized by him. The Management Board meeting can also be convened upon a written motion of at least two members of the Management Board or commercial proxies or upon a written motion of the Supervisory Board. The meeting shall be convened within 7 days of the day of the submission of the motion. Management Board meetings are convened by written invitation containing an agenda and, if required, materials relating to the agenda, delivered to the remaining members of the

Management Board three working days before the planned date of the meeting. Management Board meetings can take place without being formally convened provided that all Management Board members agree to the meeting and the proposed agenda. Members of the Management Board and persons invited to participate in the Management Board meeting can take part in the meeting via teleconference, provided that each person attending the meeting is able to hear all other persons.

Management Board resolutions are passed by a simple majority of votes cast, provided that at least half of the members of the Management Board are present at the meeting. Resolutions can be made only on matters included on the agenda, unless all members of the Management Board agree to vote on a matter not included on the agenda. Minutes of the Management Board meeting are taken and contain the date and place of the meeting, the names of the persons present, the agenda, the text of the adopted resolutions, as well as dissenting opinions voiced by Management Board members. The President of the Management Board or a member of the Management Board authorized by the President of the Management Board can order a written ballot on a draft resolution submitted in writing. Such resolution submitted in writing is validly adopted provided that (i) more than half of the Management Board members vote in favor of the resolution; and (ii) all Management Board members agree in writing to a written ballot. Signing the resolution by a Management Board member shall be deemed as acceptance of its adoption in writing.

The joint action of two Management Board members or of one Management Board member and a commercial proxy is required to make declarations of will and sign representations on behalf of the Company.

In accordance with the Management Board Bylaws, decisions outside the ordinary course of business require a resolution of the Management Board.

Additionally, in accordance with the Management Board Bylaws each member of the Board has the right and the duty to run Company's affairs within the scope of the ordinary course of business. The scope of competencies and activities of each of the Management Board members within the ordinary course of business is presented in the organizational regulations of the Company.

Appointment and removal of the management staff

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

Parent's management bodies

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

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

5.7. COMPENSATION REPORT

5.7.1. MANAGEMENT BOARD

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 Gątkiewicz (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:

TABLE 43: REMUNERATION OF MEMBERS OF THE COMPANY'S MANAGEMENT BOARD AS WELL AS THE COMPANY'S SUPERVISORY BOARD, INCLUDING BONUSES

000' EUR NAME	2016	including bonus for 2016	2015	including bonus for 2015
Michael Wolff	874	*234*	202	*49*
Richard Mayer	766	*350*	-	
Rafał Karcz	288	*92*	136	*34*
Dirk Hardow (from 1 November 2016)	84	*25*	-	
Wojciech Gątkiewicz	261	*93*	254	*69*
Dariusz Tomaszewski (till 2 March 2016)	13		142	
Dr. Gerd Schubert (till 1 June 2016)	231	*21*	131	
	2 517	*815*	865	*152*

Beside the regular remuneration of Mr. Gerd Schubert, the Group recorded an expense for severance payment (termination benefits) due to his dismissal in the amount of EUR 610 thousand.

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

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

TABLE 44: SHORT - TERM EMPLOYEE BENEFITS FOR HOLDING MANAGEMENT POSITIONS AT PFLEIDERER PROSPAN SP. Z O.O.

000' EUR NAME	2016	Including bonus for 2016 of	2015	Including bonus for 2015 of
Wojciech Gątkiewicz	183	93	252	69
Rafał Karcz	55	43	134	34
Dariusz Tomaszewski	95	21	144	76
	333	157	530	179

As at the end of 2016 members of the Management held the following number of Pfleiderer Group S.A. shares:

- Member of the Management Board Wojciech Gątkiewicz - 5,400 Company shares
- Member of the Management Board Rafał Karcz - 3,472 Company shares

As of 31.12.2016 the members of the Management Board have the following contracts:

- Mr. Michael Wolff – contract with PCF GmbH until 31.12.2017; in case of termination before this date he can also get a maximum of two years' basic salary limited to the remaining term of his contract.
- Mr. Richard Mayer – contracts with PCF GmbH until 31.12.2018; in case of termination before this date he can also get a maximum of two years' basic salary limited to the remaining term of his contract.
- Mr. Dirk Hardow – contract with PCF GmbH concluded for 3 years beginning from 01.11.2016; in case of earlier termination he can also get a maximum of two years' basic salary limited to the remaining term of his contract.
- Mr. Wojciech Gątkiewicz – contract with the Company concluded for indefinite period of time. Contract may be terminated subject to 12 – month notice effective as of a half of the calendar year.
- Mr. Rafał Karcz – contract with the Company concluded for indefinite period of time. Contract may be terminated subject to twelve months' notice, effective as of a half of the calendar year and a notice of termination of the contract may be submitted on 31.12.2018 at the earliest. In case of earlier termination of the contract he can receive a contractual penalty being a product of twice monthly basic salary and a number of months until 31.12.2019.

Additionally if the contract is terminated in an ordinary manner, Mr. Karcz will be entitled to a one-off severance pay equal to annual basic salary and variable remuneration granted for a calendar year preceding a year in which the contract has been terminated.

Changes in the Management Board

On 2 March 2016, Mr. Richard Mayer was appointed to the position of Member of Management Board-Chief Financial Officer and Mr. Rafał Karcz was dismissed from the position of Chief Financial Officer and appointed to the position of Member of Management Board - Chief Administration Officer.
On 2 March 2016, Mr. Dariusz Tomaszewski submitted resignation from the position of Member of Management Board – Sales Director.
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.
On September 15, 2016 Mr. Wojciech Gątkiewicz, a member of Management Board of the Company was recalled from the position of Chief Transformation Officer (CTO) and appointed to the position of Chief Sales Officer (CSO) of the Company.

5.7.2. SUPERVISORY BOARD

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

TABLE 45: SHORT-TERM EMPLOYEE BENEFITS PAID TO MEMBERS OF PFLEIDERER GROUP S.A. SUPERVISORY BOARD IN THE REPORTING PERIOD

000' EUR	2016	2015
Zbigniew Prokopowicz (from 19 February 2016)	193	-
Jason Clarke	-	-
Paolo Antonietti (till 29 June 2016)	49	46
Gerd Hammerschmidt (till 19 January 2016)	2	14
Michael Keppel	88	23
Tod Kersten	20	-
Richard Mayer (till 19 January 2016)	2	25
Christoph Mikulski (till 29 June 2016)	24	14
Jochen Schapka (till 19 January 2016)	2	25
Krzysztof Sędzikowski (from 19 February 2016)	63	-
Stefan Wegener (from 19 February 2016)	87	-
Jan Woźniak	58	25
	588	172

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

Other members of the Pfleiderer Group S.A. Supervisory Board did not hold any shares in the Company at the end of 2016.

Changes in Supervisory Board

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

On 19 February 2016, Mr Zbigniew Prokopowicz, Mr Krzysztof Sędzikowski and Mr Stefan Wegener were appointed to the position of the Members of the Supervisory Board.

On 2 March 2016 Mr Zbigiew Prokopowicz was appointed to the position of the Deputy Chairman of the Supervisory Board.

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

On June 22, 2016 Mr. Christoph Mikulski and on June 23, 2016 submitted Mr. Paolo G. Antonietti (Chairman of the Supervisory Board) resigned from the Supervisory Board. Their resignations became effective on June 29, 2016 - the date of appointment of new members: Mr. Jason Clarke and Mr. Tod Kersten in their place by the General Meeting of Shareholders.

On June 29, 2016 the Company's Supervisory Board elected from its members Mr. Zbigniew Prokopowicz to serve as the Chairman of the Company's Supervisory Board and Mr. Jason Clarke to serve as the Vice-Chairman of the Supervisory Board.

5.8. HOLDERS OF SECURITIES GIVING SPECIAL RIGHTS OF CONTROL AND DESCRIPTION OF THESE RIGHTS

Shares in the Parent

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

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

5.9. RESTRICTIONS REGARDING THE EXERCISE OF VOTING RIGHTS

Voting rights attached to the shares of the Company are defined in particular in Commercial Companies Code and the Articles of Association of the Company.

Each share of the Company carries the right to one vote at a General Meeting (Article 411 § 1 of the Commercial Companies Code).

Pursuant to Article 420 § 1 of the Commercial Companies Code, voting in General Meeting is open. A secret ballot is used for elections and on motions to dismiss members of Company's corporate bodies or liquidators, or on holding them accountable for their actions, as well as with respect to personal matters. A secret ballot takes place at the request of at least one shareholder present or represented at the General Meeting. (Article 420 § 2 of the Commercial Companies Code).

Pursuant to Article 28 item 28.2. of the Articles of Association, resolutions of the General Meeting are adopted by a simple majority of votes, unless otherwise provided for by the Commercial Companies Code or the Articles of Association.

The resolutions of General Meeting shall be adopted by majority of three-fourths votes in the following matters:

- amendment to the Articles of Association including issuance of new shares;
- issuance of bonds;
- transfer of enterprise of the Company;
- merger of the Company with another company;
- dissolving the Company.

Pursuant to Article 28 item 28.4. of the Articles of Association, without prejudice to the relevant provisions of the Commercial Companies Code, a significant change of the scope of Company's business may take place without buying out the shares held by shareholder who disapproves of such change, if the resolution is adopted with majority of two-thirds votes in the presence of persons representing at least half of share capital.

5.10. RESTRICTIONS ON THE TRANSFER OF OWNERSHIP TITLE TO SECURITIES

Pursuant to Article 337 of the CCC, shareholders of the Company may dispose the shares. Disposal of shares includes their transfer (transfer of ownership) and other forms of disposal. The Articles of Association of the Company do not provide for any share disposal restrictions.

5.11. RULES FOR AMENDING THE COMPANY'S ARTICLES OF ASSOCIATION

Amendments to the Parent's Articles of Association

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

6. MANAGEMENT BOARD REPRESENTATION

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated 19 February 2009 (consolidated text: Dz.U. of 2014, item 133), the Management Board of Pfleiderer Group S.A. (the Parent) represents that to the best of its knowledge the annual consolidated and standalone financial statements for the year ended 31 December 2016 and the comparative data have been prepared in compliance with the applicable accounting policies and give a fair and clear view of the Pfleiderer Group S.A. Group's assets and financial results, and that the annual consolidated and standalone Directors' Report on the Pfleiderer Group S.A. Group's operations gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

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

Management Board of Pfleiderer Group S.A. **Wrocław, 25 April 2016**

Michael Wolff

President of the Management Board

Wojciech Gątkiewicz

Member of the Management Board, Chief Sales Officer

Dirk Hardow

Member of the Management Board,
Chief Operating Officer

Rafał Karcz

Member of the Management Board,
Chief Administration Officer

Richard Mayer

Member of the Management Board,
Chief Financial Officer

LIST OF FIGURES

LIST OF TABLES