PFLEIDERER

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MANAGEMENT BOARD REPORT

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

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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.

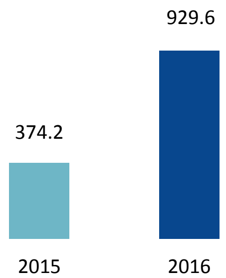
PFLEIDERER GROUP IN 2016 AT A GLANCE

Good set of financial results supported by favorable market conditions

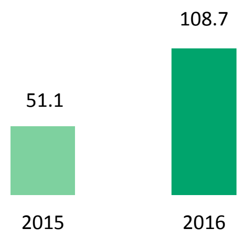
11.7%	A record EBITDA margin thanks to improvement of the operational efficiency over the last years
11.7%	Growth of the Group's sustainable EBITDA - to EUR **147.8** million
EUR 52.0 million	Capital Expenditures - continued investments on strategic projects with attractive payback
48.4%	Increase of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

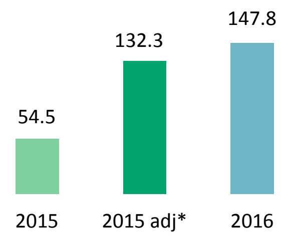
REVENUES
(EUR M)



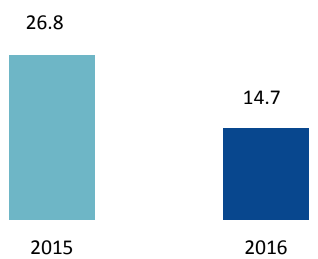
REPORTED EBITDA
(EUR M)



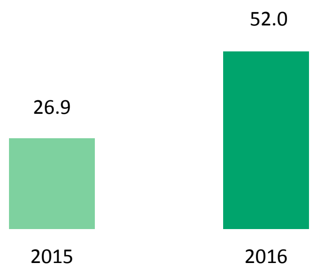
ADJ. EBITDA
(EUR M)



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

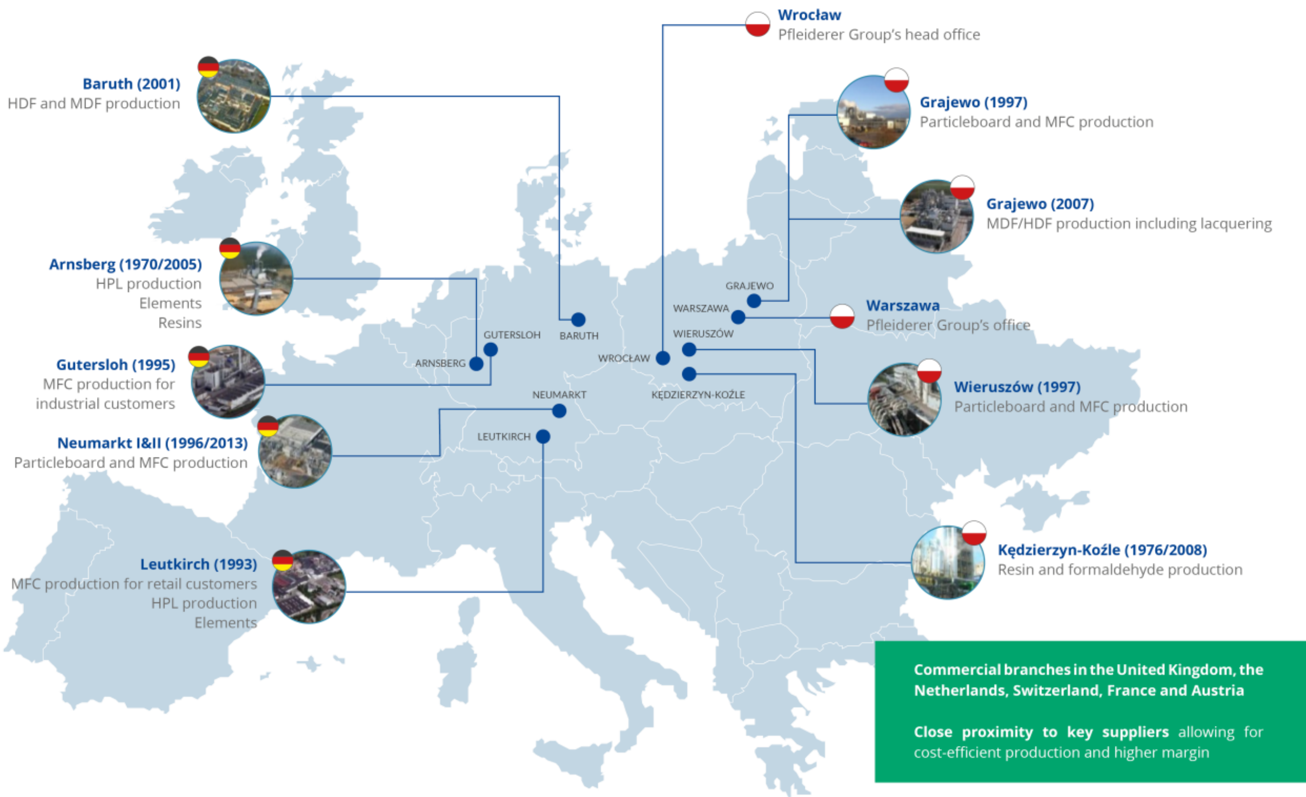
1.1. BUSINESS PROFILE – ACTIVITIES OF THE GROUP

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.

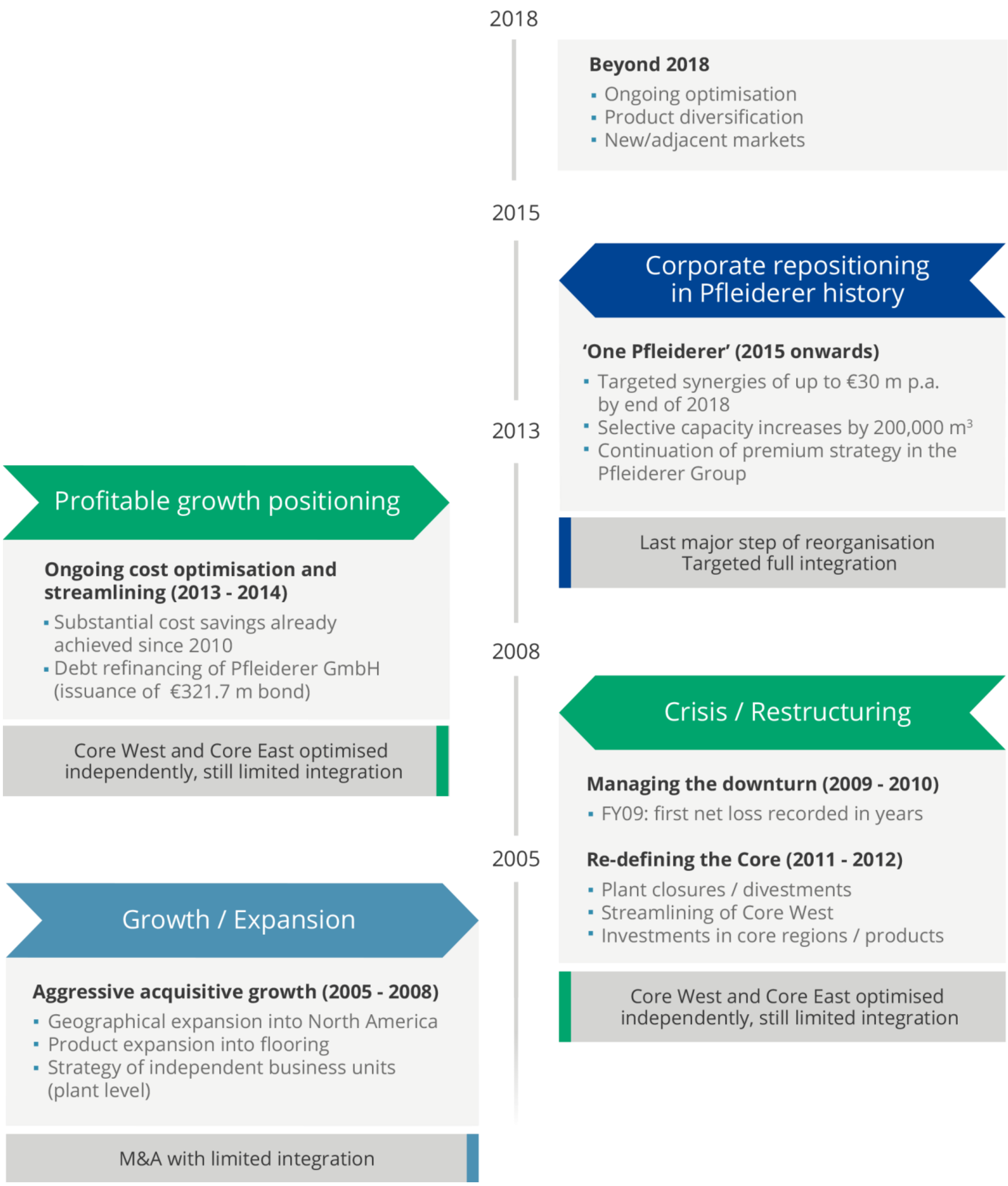
The Pfleiderer Group consists of production plants of various profiles of the activity.

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.

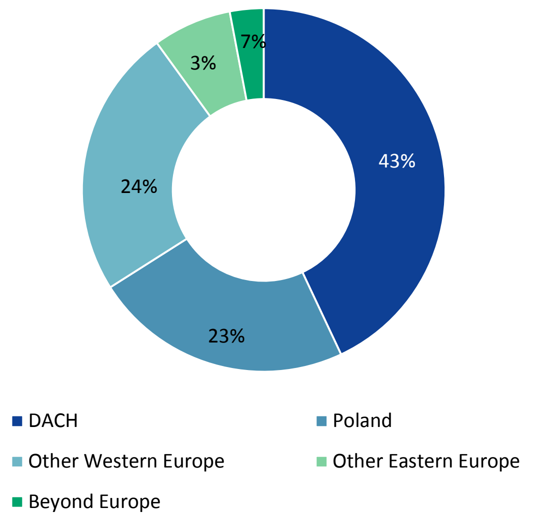
FIGURE 3: PRODUCT RANGE

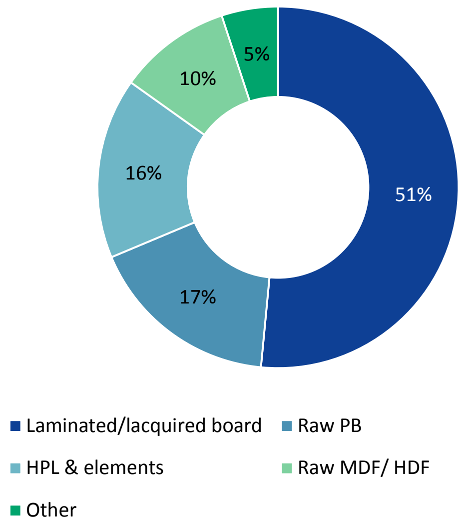
	VALUE – ADD PRODUCTS		BASIC PRODUCTS [2]		OTHER
	MELAMINE-FACED CHIPBOARD (MFC)	HIGH PRESSURE LAMINATES (HPL)/ELEMENTS	RAW PARTICLEBOARD (RAW PB)	MEDIUM-DENSITY /HIGH-DENSITY FIBERBOARD (MDF/HDF)	OTHER PRODUCTS
PRODUCTS					ELECTRICITY[1], RESIN SILEKOL, IMPREGNATION PAPER,EDGES AND PAPER FOILS
% OF 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	✓	✓	✓	✓	
MAIN APPLICATIONS: CONSTRUCTION	✓	✓	✓	✓	
MAIN APPLICATIONS: SHOP FITTING	✓	✓	✗	✗	
MAIN APPLICATIONS: 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)

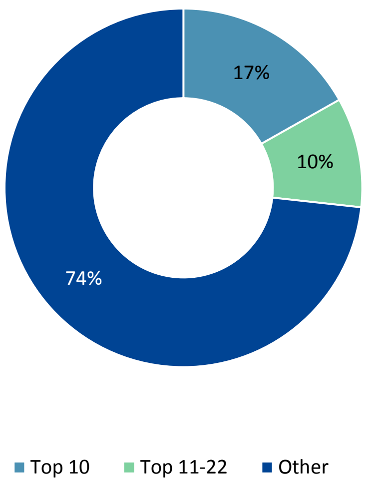
FIGURE 4: REVENUE AND CUSTOMER SPLIT

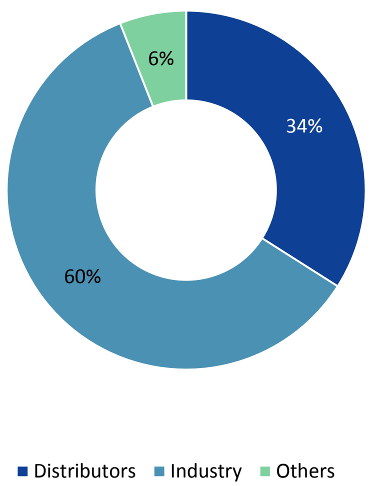
REVENUE SPLIT 2016





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

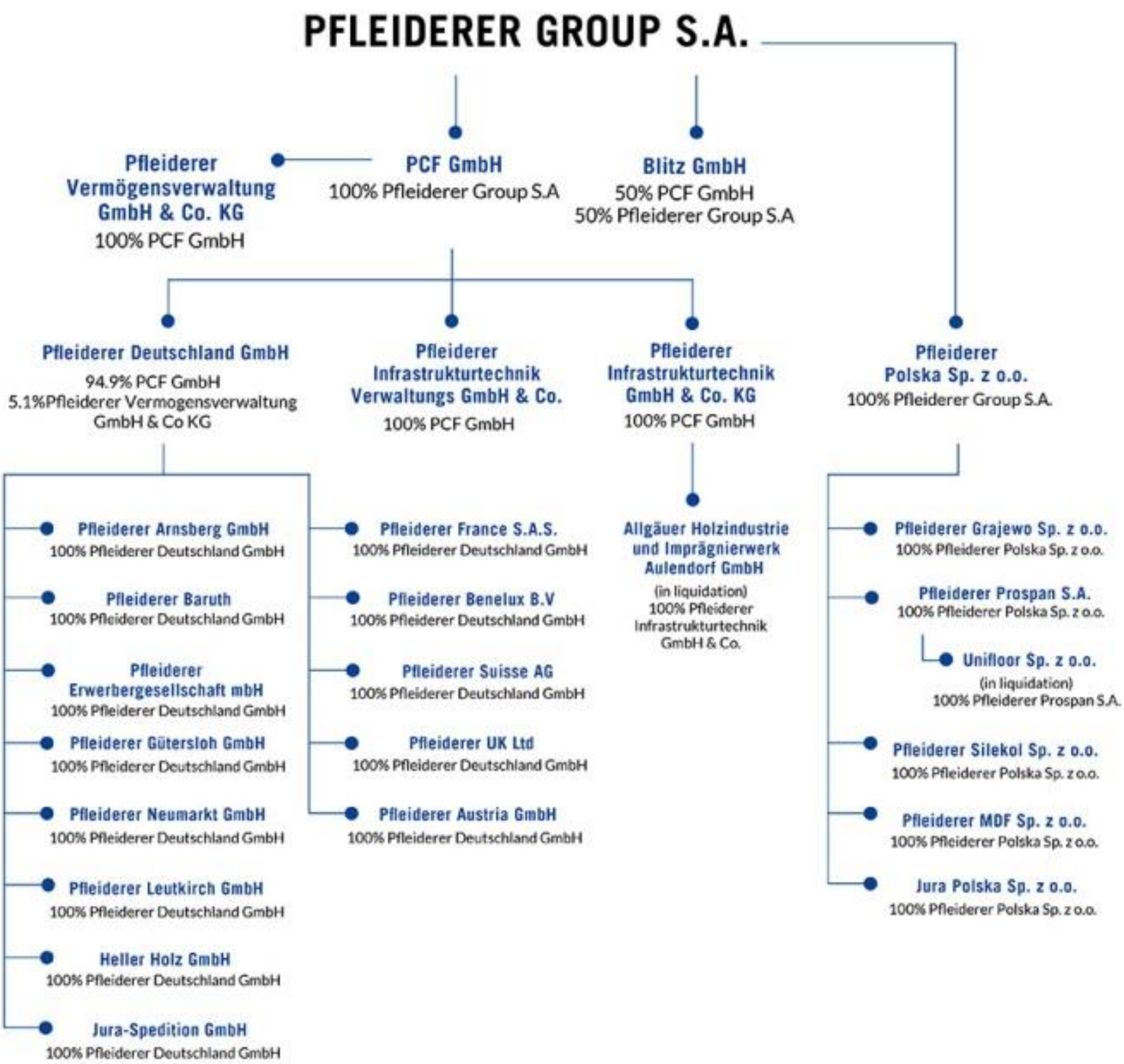


TABLE 1: SUBSIDIARIES OF THE PFLEIDERER GROUP

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.

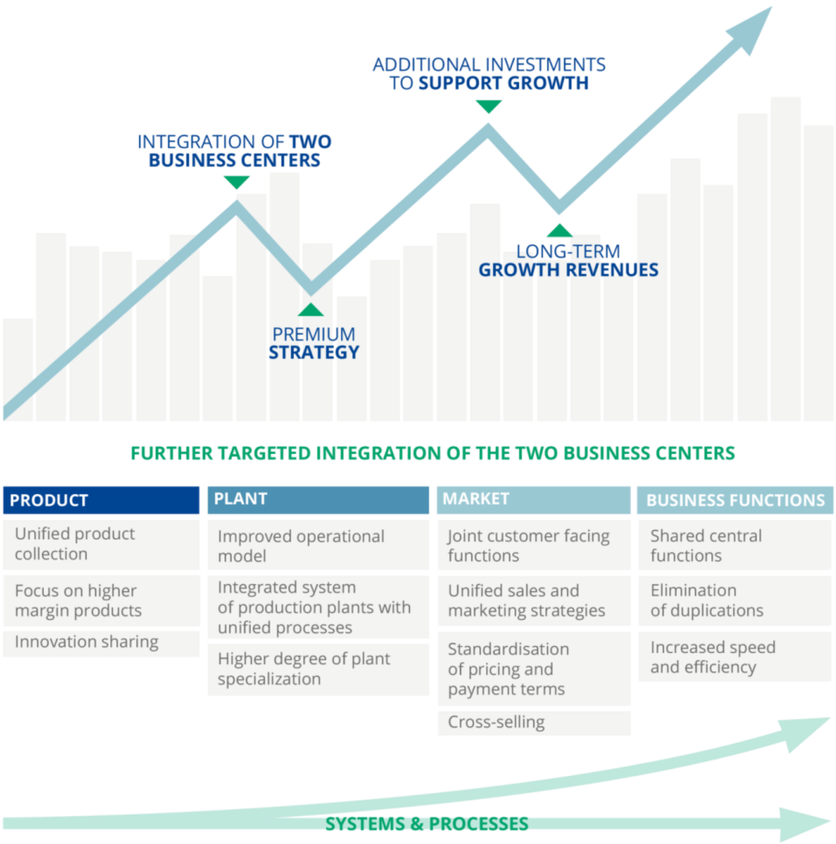
On 29 December 2016 there was achieved the target three layer structure of entire Pfleiderer Group with Pfleiderer Group S.A., as the holding company with the shares listed on Warsaw Stock Exchange, with Pfleiderer Deutschland GmbH and Pfleiderer Polska Sp. z o.o. as the sales companies and with production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

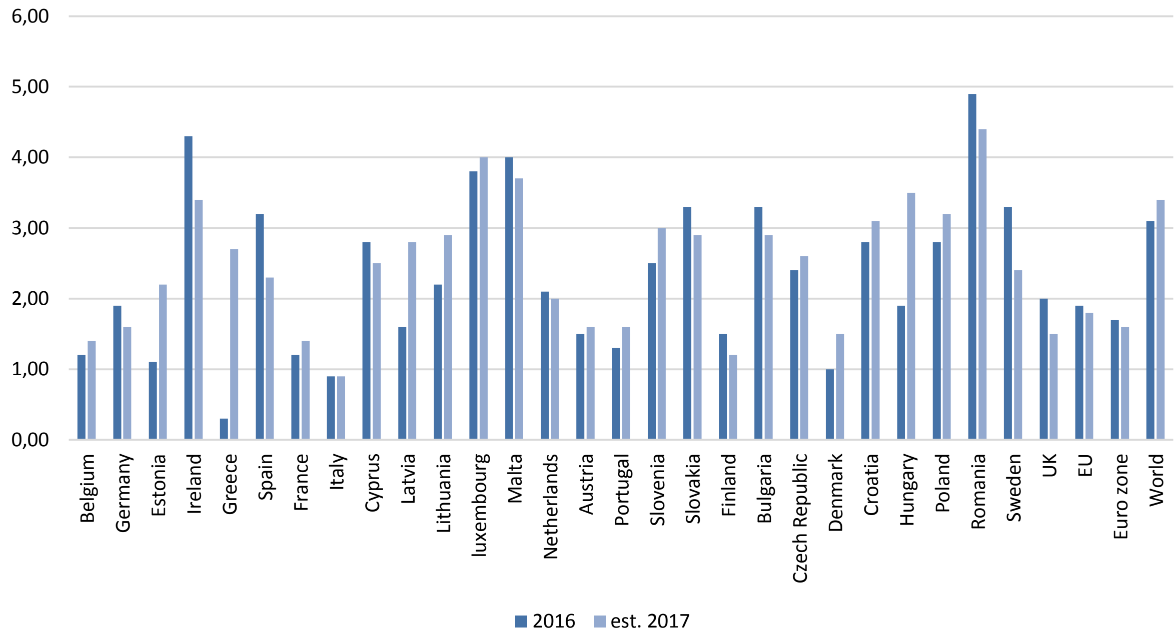
Macroeconomic situation in 2016

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.

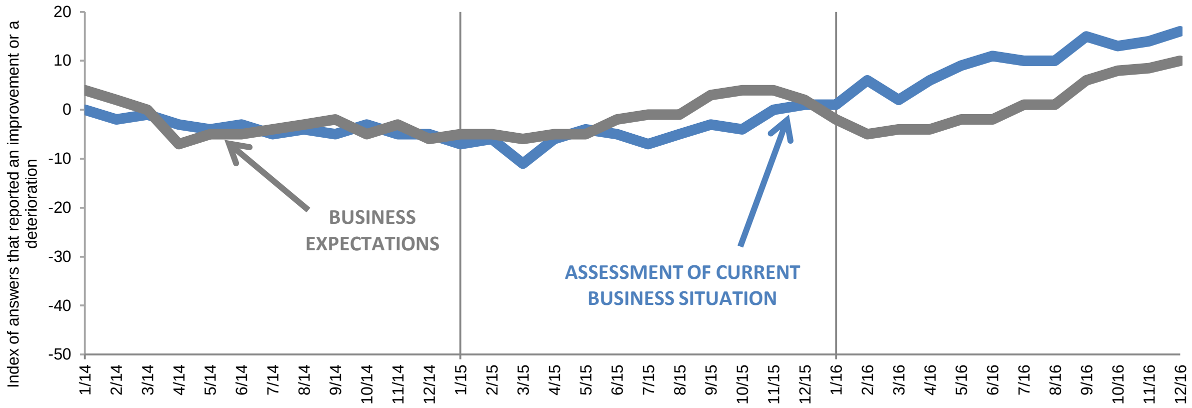
Economic growth in Poland in 2016 slowed down versus the previous year and amounted to about 2.7%, with the final quarter of the year being probably the weakest. The slowdown was primarily due to a reduction in investments, which were undermined by low absorption of EU funds in the interim period. Public 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.

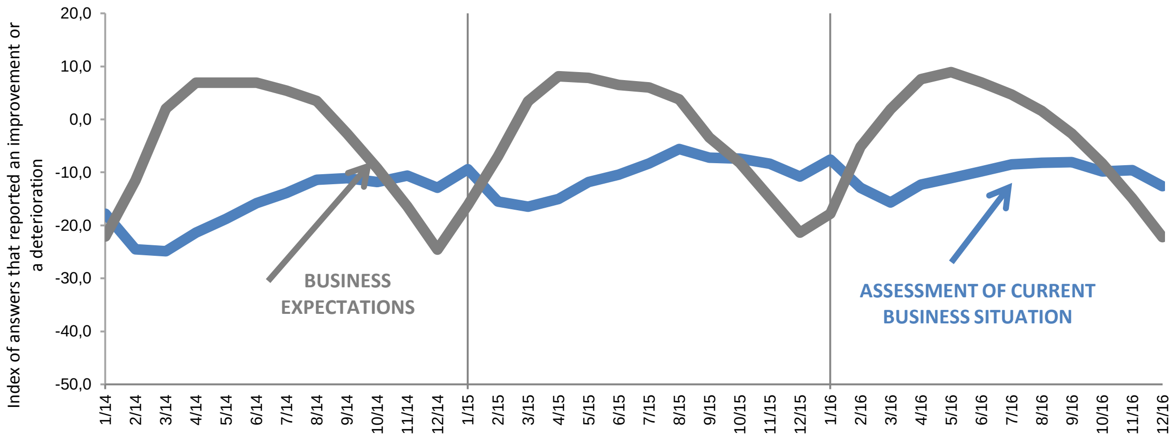
FIGURE 8: BUSINESS CLIMATE IN CONSTRUCTION - GERMANY



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



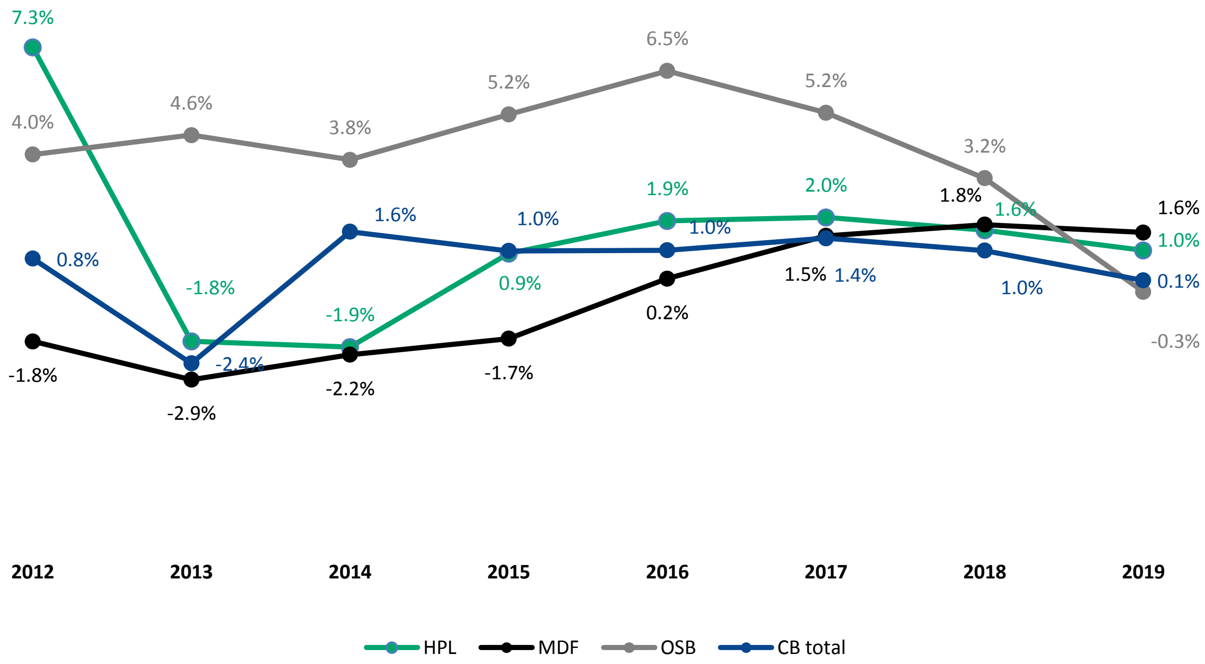
Source: GUS

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.

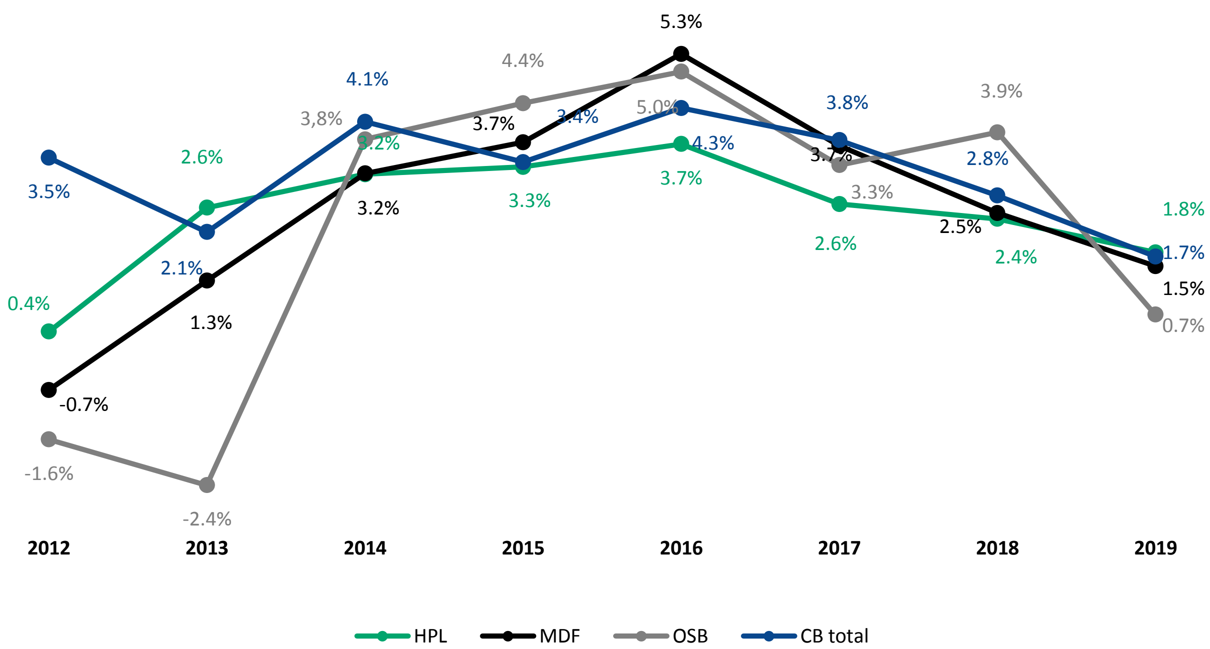
In case of DACH countries OSB market characterizes the highest growth dynamic. Moderate positive change is expected at HPL and MDF/HDF market. In Poland there's expectation that all product market will have comparable growth dynamic.

FIGURE 10: MARKET SIZE DYNAMIC (VOLUME) - DACH



Source: B&L

FIGURE 11: MARKET SIZE DYNAMIC (VOLUME) - POLAND

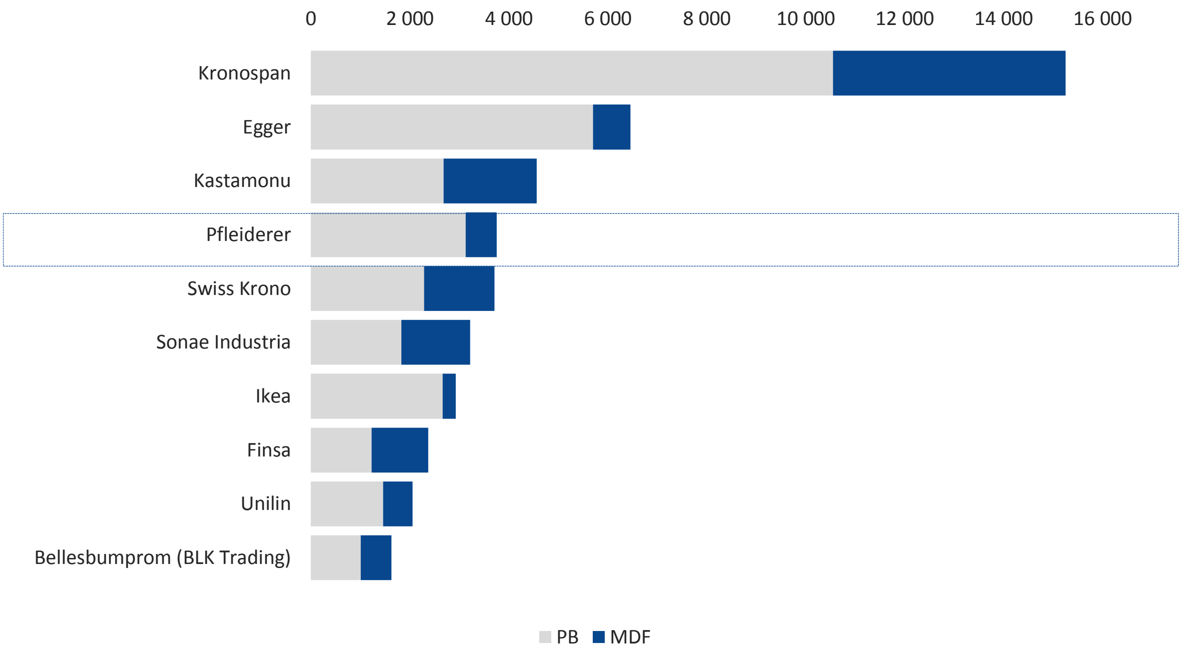


Source: B&L

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%

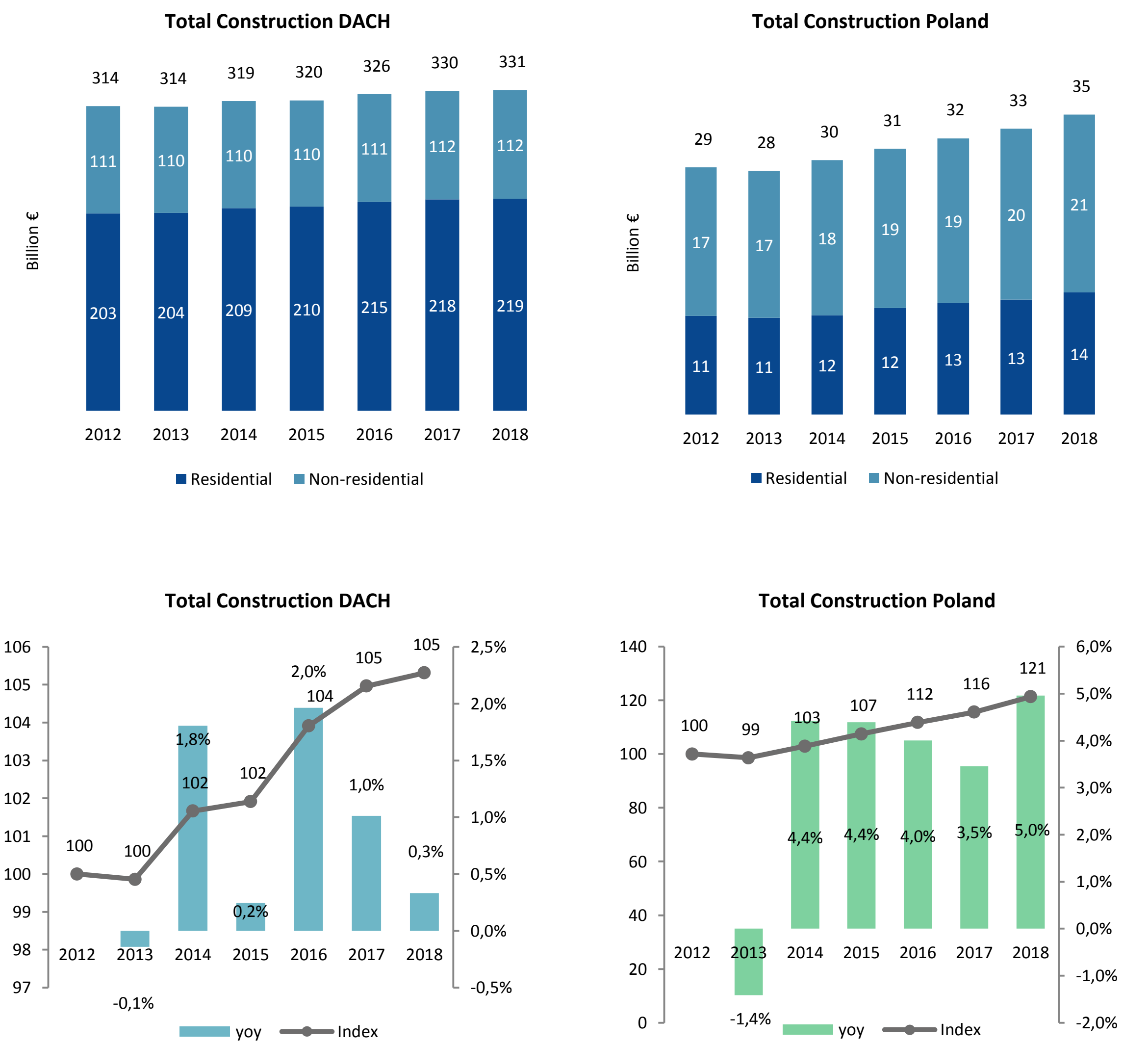
Netherlands	**4.9%**	6.2%	3.1%

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.

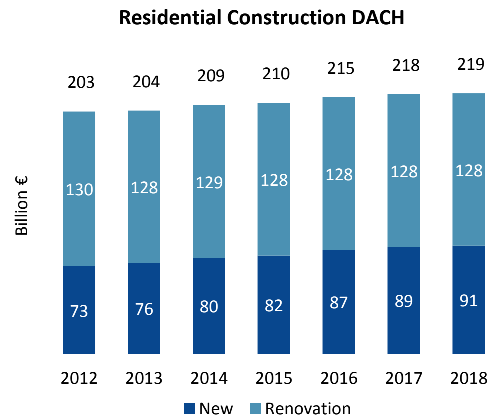
FIGURE 13: TOTAL CONSTRUCTION

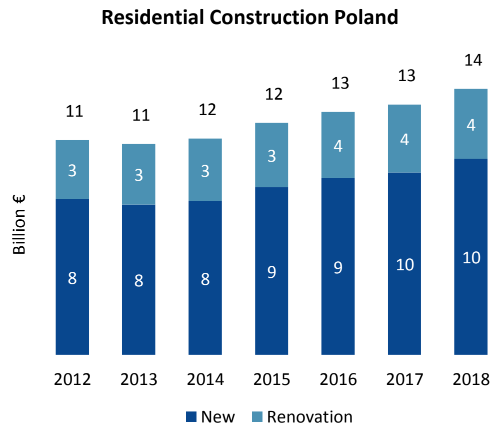


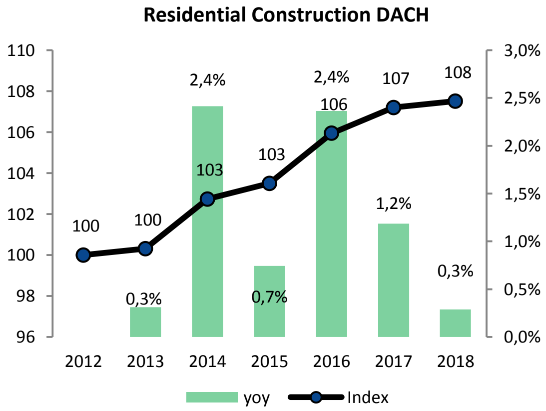
Source: Euroconstruct

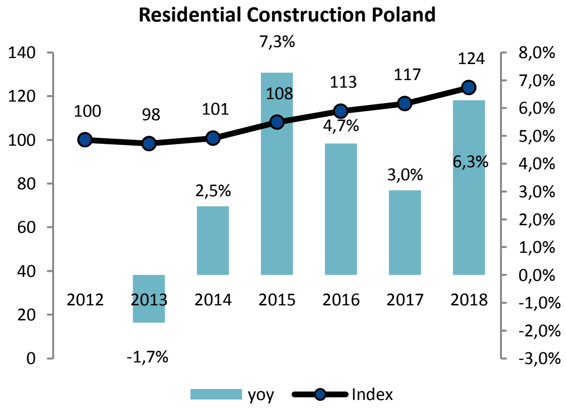
German language speaking countries markets are based mostly on renovation construction (in residential and non-residential building). In Poland there’s different situation – new buildings takes bigger part of the construction business.

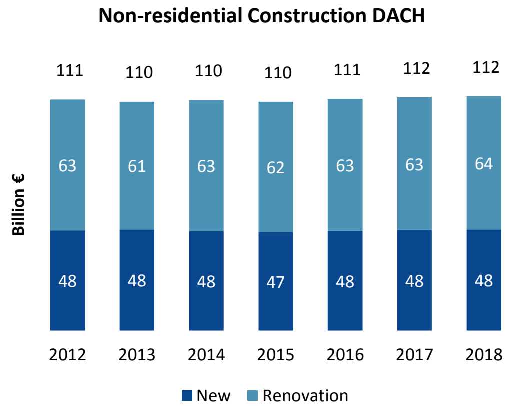
FIGURE 14: RESIDENTIAL AND NON-RESIDENTIAL CONSTRUCTION

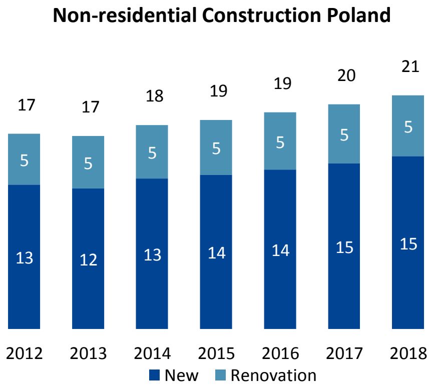












Source: Euroconstruct

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

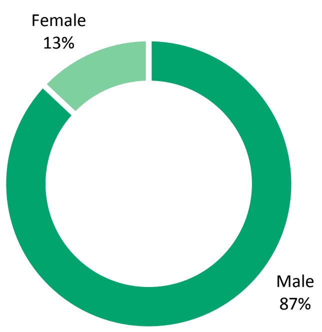
2,080 Annual employment in In **Business Centre West** in 2016

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

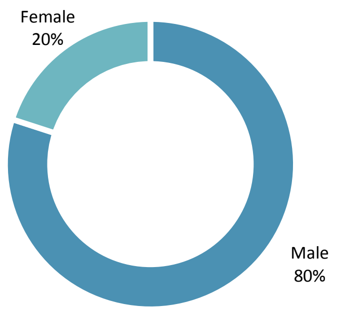
	2016	2015
Management	7	5
Direct production employees	1,502	1,438
Indirect production employees	779	691
Administration, office and other employees	977	886
Total	**3,258**	**3,015**

FIGURE 15: THE GENDER STRUCTURE

BUSINESS CENTRE WEST



BUSINESS CENTRE EAST



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.

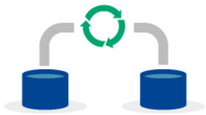
Environment

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

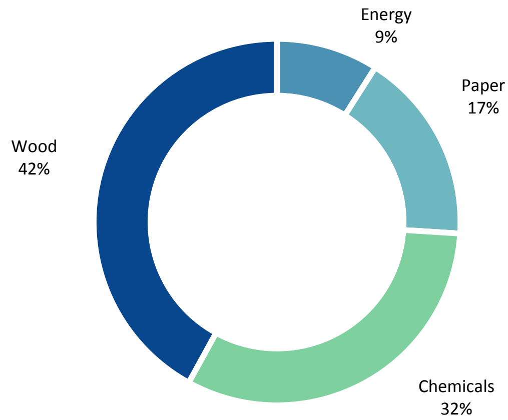
Using scale and power of all the Group, each area negotiates terms and conditions with suppliers, based on strategy prepared and realized in each sub-material group.

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.

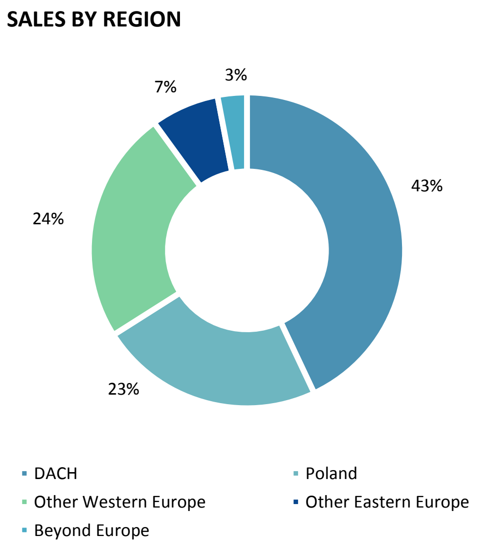
Revenue by product group was as follows:

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



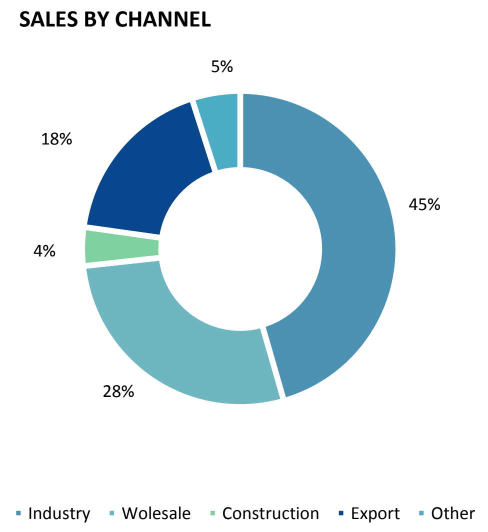


TABLE 12: REVENUE BY REGION AT THE PFLEIDERER GROUP S.A. LEVEL (STAND ALONE)

'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

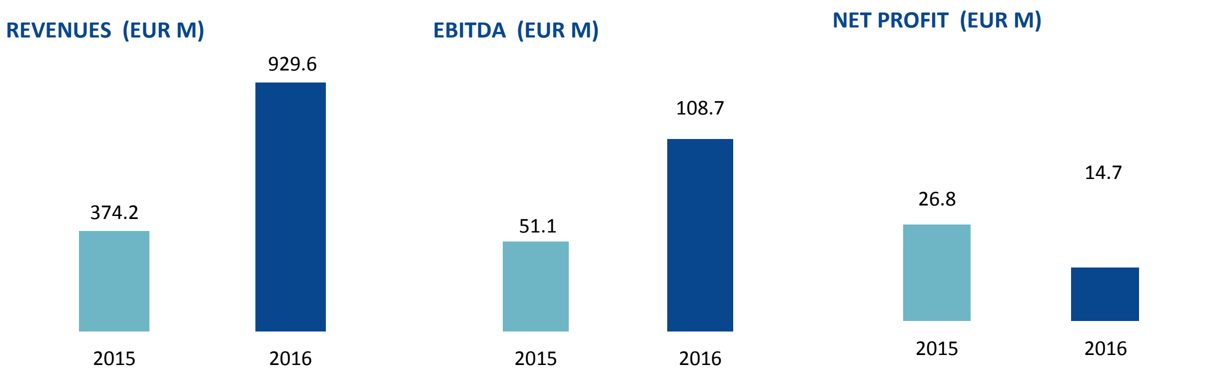


TABLE 15: CONSOLIDATED STATEMENTS OF PROFIT AND LOSS (COMPARABLE DATA OF PFLEIDERER GRAJEWO GROUP)

'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)

Lender	Currency	Interest rate	Duration from	Duration to	Credit limit EUR	31 Dec., 2016 Drawn amount EUR	31 Dec., 2016 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%

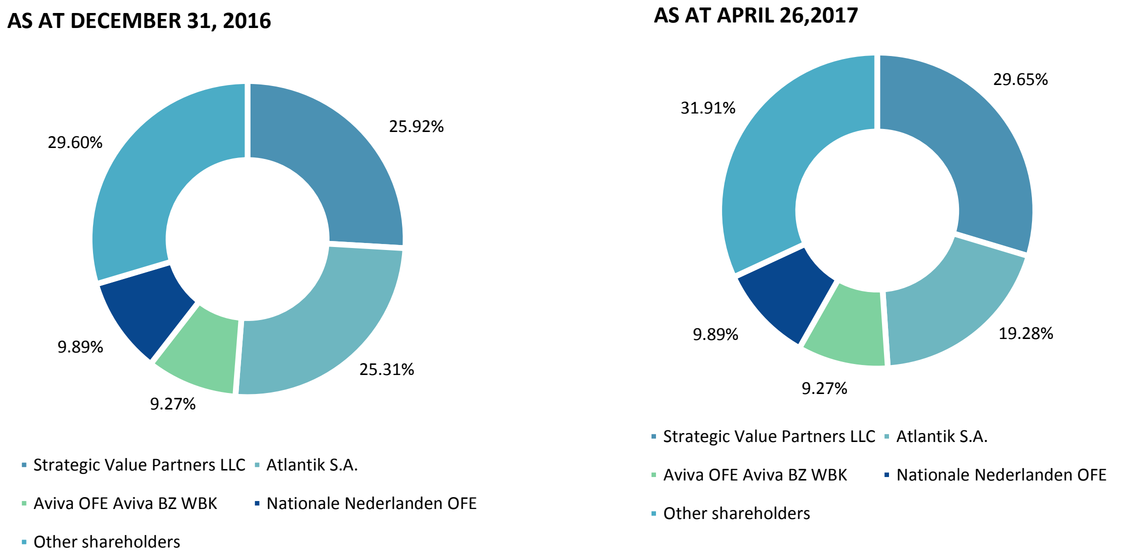
As a result, the shareholder structure at the date of release of financial statements was as follows:

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%

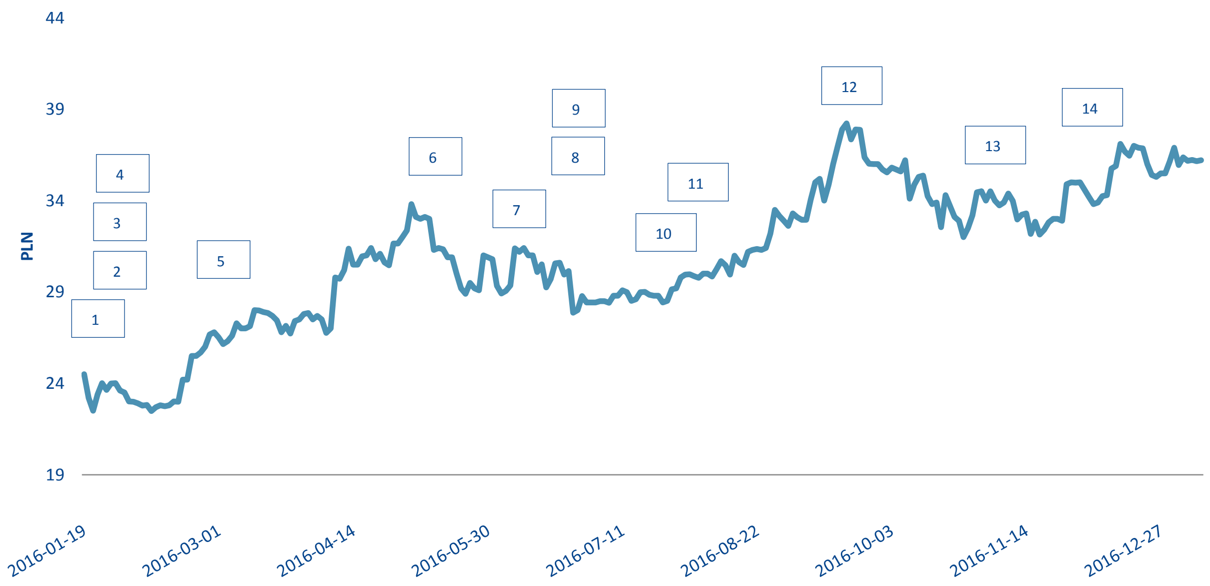
* according to latest available information

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,

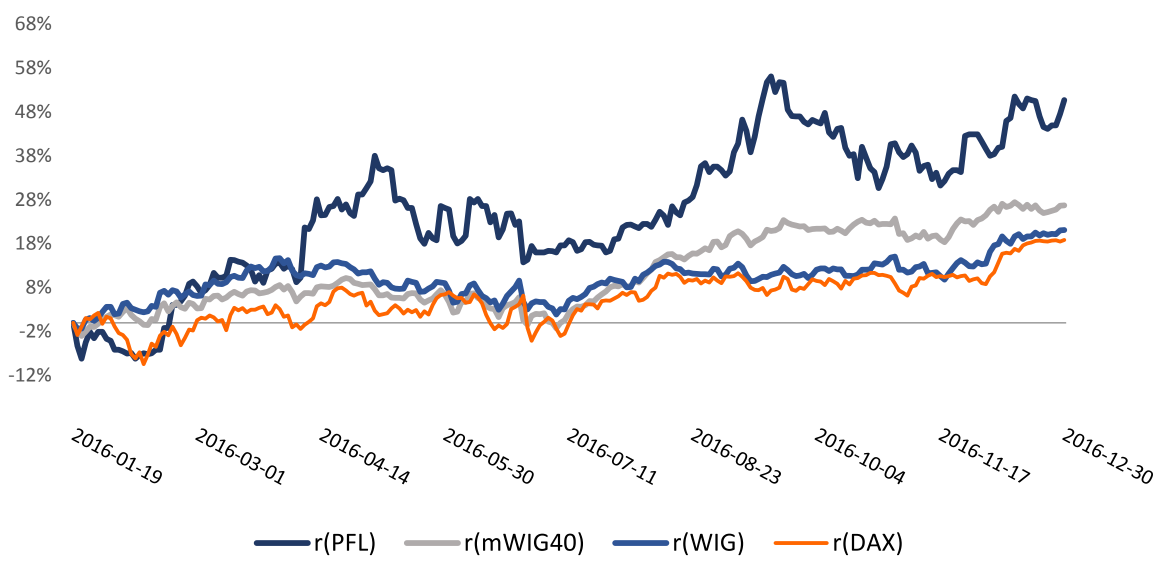
14 8 December: Execution of commitment letters in respect of the refinancing of existing indebtedness

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

RATES OF RETURN (19.01-30.12.16)



- 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

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

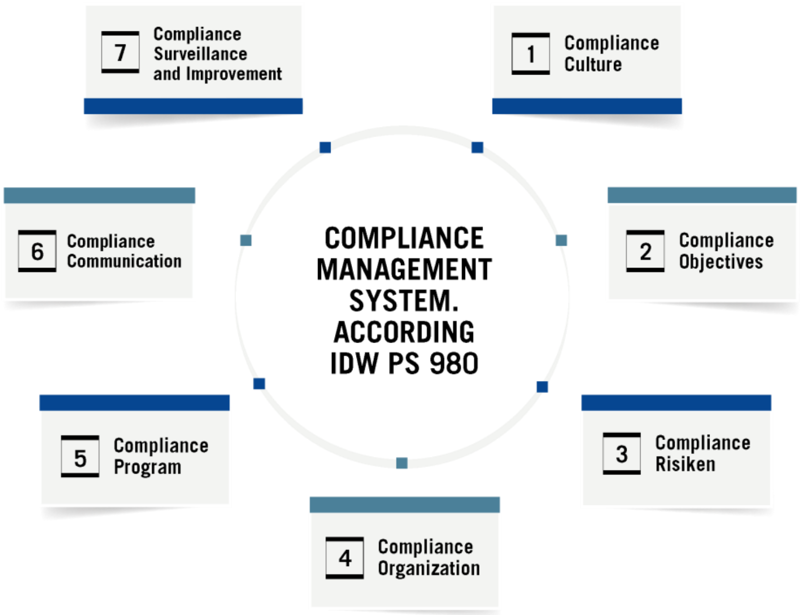
Internal Controlsystem is a process, put into effect by Pfleiderer's Board of Directors, management, and other personnel, designed to provide reasonable assurance that the separate and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management, 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

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