

POLISH FINANCIAL SUPERVISION AUTHORITY

Non-Consolidated Annual Report R 2016

year

**(prepared in accordance with Par. 86.1.3 of the Regulation of the Minister of Finance dated February 19th 2009 -
Dz.U. No. 33, item 259)**

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

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

including financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: April 26th 2017

Pfleiderer Group Spółka Akcyjna

(full name)

Pfleiderer Group SA
(abbreviated name)**53-611**

(postal code)

ul. STRZEGOMSKA

(street)

+48 71 747 11 00

(telephone number)

office@pfleiderer.pl

(e-mail)

719-10-00-479

(NIP – Tax Identification Number)

wood products(sector according to the Warsaw Stock Exchange's
classification)**Wrocław**

(city/town)

42AB

(number)

+48 71 747 11 41

(fax number)

www.pfleiderer.pl

(web site)

4500933817

(REGON – Industry Registration Number)

FINANCIAL HIGHLIGHTS	PLN '000		EUR '000	
	2016	2015	2016	2015
I. Sales revenue	395 449	648 951	90 623	155 073
II. Operating profit/(loss)	8 117	37 849	1 860	9 044
III. Profit/(loss) before tax	204 868	75 279	46 949	17 989
IV. Net profit	207 056	69 106	47 450	16 514
V. Net cash provided by (used in) operating activities	30 241	81 828	6 930	19 554
VI. Net cash provided by (used in) investing activities	-405 938	20 757	-93 026	4 960
VII. Net cash provided by (used in) financing activities	349 392	-76 129	80 068	-18 192
VIII. Total net cash flow	-26 306	26 456	-6 028	6 322
IX. Total assets	2 224 785	1 467 907	502 890	344 458
X. Liabilities	973 467	393 005	220 042	92 222
XI. Non-current liabilities	356	8 815	80	2 068
XII. Current liabilities	973 111	384 190	219 962	90 154
XIII. Equity	1 251 318	1 074 902	282 848	252 236
XIV. Share capital	21 351	16 376	4 826	3 843
XV. Outstanding shares at the end of the reporting period	64 701 007	49 624 000	64 701 007	49 624 000
XVI. Weighted average diluted number of shares	63 918 321	49 624 000	63 918 321	49 624 000
XVII. Earnings per ordinary share (PLN/EUR)	3,24	1,39	0,74	0,33
XVIII. Diluted earnings per ordinary share (PLN/EUR)	3,24	1,39	0,74	0,33
XIX. Book value per share (PLN/EUR)	19,34	21,66	4,37	5,08
XX. Declared or paid dividend per share (PLN/EUR)	1,00	0,00	0,23	0,00

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



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

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2016**



KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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00-189 Warszawa, Polska
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OPINION OF THE INDEPENDENT AUDITOR

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

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of Pfeiderer Group S.A. (formerly Pfeiderer Grajewo S.A.), with its registered office in Wrocław, ul. Strzegomska 42AB ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statement of profit and loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying separate financial statements of Pfeleiderer Group S.A.:

- give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- comply, in all material respects, with the applicable regulations and the provisions of the Company's separate articles of association that apply to the Company's financial statements; and
- have been prepared from accounting records, that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

Management of the Company is responsible for the report on the Company's activities.

Our opinion on the separate financial statements does not cover the report on the Company's activities.

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

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

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

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

Signed on the Polish original

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

25 April 2017



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

**Report on the audit
of the separate financial statements**

**Financial Year ended
31 December 2016**



Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
The report on the audit of the separate financial statements
for the financial year ended 31 December 2016

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Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
The report on the audit of the separate financial statements
for the financial year ended 31 December 2016
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1. General

1.1. General information about the Company

1.1.1. Company name

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

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

1.1.2. Registered office

ul. Strzegomska 42AB
53-611 Wrocław

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

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

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

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

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

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

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

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

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



Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
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In accordance with the resolution of the Supervisory Board dated 1 June 2016, Mr. Gerard Schubert was recalled from the position of Member of the Management Board – Chief Operating Officer.

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

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

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Miroslaw Matusik
Registration number: 90048

1.2.2. Audit Firm information

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

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

1.3. Prior period financial statements

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

The separate financial statements were approved at the General Meeting on 29 June 2016 where it was resolved to distribute the net profit for the prior financial year of PLN 69,106 thousand as follows:

- PLN 64,701 thousand to be paid as a dividend,
- PLN 4,405 thousand to reserve capital.

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

1.4. Audit scope and responsibilities

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

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



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

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

We audited the separate financial statements at the Company during the period from 14 to 18 November 2016 and from 16 to 20 January 2017.

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Company is also responsible for the Report on the Company's activities.

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

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

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

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

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



Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
 The report on the audit of the separate financial statements
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2. Financial analysis of the Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2016 PLN '000	% of total	31.12.2015 PLN '000	% of total
Property, plant and equipment	353	-	162,348	11.1
Intangible assets	-	-	4,045	0.2
Investments in subsidiaries	2,109,553	94.8	785,743	53.5
Long term investments	75	-	75	-
Non-current loans advanced to subsidiaries	103,069	4.7	10,473	0.7
Advances paid on fixed assets	-	-	814	0.1
Non-current assets	2,213,050	99.5	963,498	65.6
Inventories	23	-	55,161	3.8
Trade and other receivables	6,183	0.3	415,454	28.3
Income tax receivable	852	-	375	-
Cash and cash equivalents	4,677	0.2	30,983	2.1
Fair value of hedging instruments	-	-	2,436	0.2
Current assets	11,735	0.5	504,409	34.4
TOTAL ASSETS	2,224,785	100.0	1,467,907	100.0
EQUITY AND LIABILITIES	31.12.2016 PLN '000	% of total	31.12.2015 PLN '000	% of total
Equity				
Share capital	21,351	1.0	16,376	1.1
Share premium	625,240	28.1	289,806	19.7
Reserves	374,589	16.8	676,532	46.1
Retained earnings	230,138	10.3	92,188	6.3
Total equity	1,251,318	56.2	1,074,902	73.2
Liabilities				
Employee related benefits	172	-	7,773	0.5
Deferred tax liabilities	184	-	587	0.1
Fair value of hedging instruments	-	-	455	-
Non-current liabilities	356	-	8,815	0.6
Loans and borrowings	812,825	36.6	-	-
Liabilities to related parties under debt securities	126,901	5.7	233,767	15.9
Fair value of hedging instruments	-	-	51	-
Trade and other payables	30,190	1.4	137,020	9.4
Employee related payable	3,195	0.1	13,352	0.9
Current liabilities	973,111	43.8	384,190	26.2
Total liabilities	973,467	43.8	393,005	26.8
TOTAL EQUITY AND LIABILITIES	2,224,785	100.0	1,467,907	100.0



Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
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2.1.2. Separate statement of profit and loss and other comprehensive income

	1.01.2016 - 31.12.2016 PLN '000	% of total sales	1.01.2015 - 31.12.2015 PLN '000	% of total sales
Revenue	395,449	100.0	648,951	100.0
Cost of sales	(327,412)	82.8	(550,055)	84.8
Profit on sales	68,037	17.2	98,896	15.2
Other operating income	1,508	0.4	10,350	1.6
Distribution expenses	(25,895)	6.6	(39,481)	6.1
General and administrative expenses	(32,547)	8.2	(28,068)	4.3
Other expenses	(2,986)	0.8	(3,848)	0.6
Results from operating activities	8,117	2.0	37,849	5.8
Financial income	226,883	57.4	47,182	7.3
Financial expenses	(30,132)	7.6	(9,752)	1.5
Net financing income	196,751	49.8	37,430	5.8
Profit before tax	204,868	51.8	75,279	11.6
Income tax expense	2,188	0.6	(6,173)	1.0
Net profit for the reporting period	207,056	52.4	69,106	10.6

OTHER COMPREHENSIVE INCOME

Items that are or may be reclassified to profit or

Cash flow hedges - effective portion of changes in fair value	-	-	2,374	0.4
Cash flow hedges - net change in fair value reclassified to current year profit or loss	(1,930)	0.5	(5,453)	0.8
Cash flow hedge - settlement of the forward hedging the purchase of shares	19,666	5.0	-	-
Other comprehensive income for the period	17,736	4.4	(3,079)	0.4
Total comprehensive income	224,792	56.8	66,027	10.2

Basic and diluted earnings per share (PLN)	3.24	-	1.39	-
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Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
The report on the audit of the separate financial statements
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2.2. Selected financial ratios

	2016	2015	2014
1. Return on sales			
<u>net profit for the period x 100%</u> revenue	52.4%	10.6%	9.3%
2. Return on equity			
<u>net profit for the period x 100%</u> equity - net profit for the period	19.8%	6.9%	9.7%
3. Debtors' days			
<u>average trade receivables (gross) x 365 days</u> revenue	22 days	19 days	18 days
4. Debt ratio			
<u>liabilities x 100%</u> equity and liabilities	43.8%	26.8%	37.0%
5. Current ratio			
<u>current assets</u> current liabilities	0.01	1.3	0.3

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



Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.)
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3. Detailed report

3.1. Accounting system

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

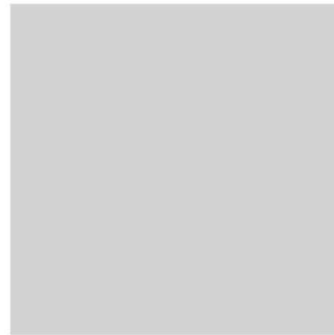
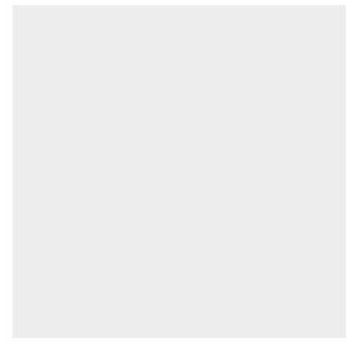
On the basis of the work performed, we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on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

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

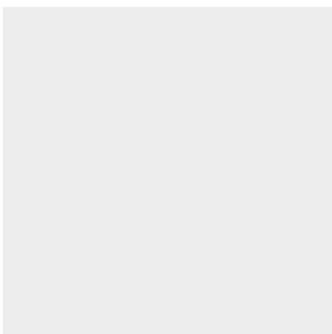
Signed on the Polish original

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

25 April 2017



PFLEIDERER GROUP S.A.



ANNUAL SEPARATE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2016

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MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated 19 February 2009 (consolidated text, Dz. U. of 2014, item 133), the Management Board of Pfleiderer Group S.A. represents that to the best of its knowledge the annual separate 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 true and fair view of the Company's assets and financial results, and that the Directors' Report on operations of the Company and Capital Group Pfleiderer Group S.A. gives a fair view of its development, achievements and standing of the Company and Capital Group, including a description of the key risks and threats.

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

Michael Wolff

President of the Management Board

Richard Mayer

*Member of the Management Board, Chief
Financial Officer*

Rafał Karcz

*Member of the Management Board, Chief
Administration Officer*

Wojciech Gątkiewicz

*Member of the Management Board, Chief
Sales Officer*

Dirk Hardow

*Member of the Management Board, Chief
Operating Officer*

Wrocław, 25 April 2017

ANNUAL SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

Assets	Note	31.12.2016	31.12.2015
Property, plant and equipment	14	353	162 348
Intangible assets	15	0	4 045
Investments in subsidiaries	16	2 109 553	785 743
Long term investments	17	75	75
Non-current loans advanced to subsidiaries	16	103 069	10 473
Advances paid on property, plant and equipment		0	814
Non-current assets		2 213 050	963 498
Inventories	19	23	55 161
Trade and other receivables	20	6 183	415 454
Income tax receivables		852	375
Cash and cash equivalents		4 677	30 983
Fair value of hedging instruments	27	0	2 436
Current assets		11 735	504 409
Total assets		2 224 785	1 467 907
Equity and liabilities			
Equity			
Share capital	21	21 351	16 376
Share premium		625 240	289 806
Reserves		374 589	676 532
Retained earnings		230 138	92 188
Total equity		1 251 318	1 074 902
Liabilities			
Employee related payables	24	172	7 773
Deferred tax liabilities	18	184	587
Fair value of hedging instruments	27	0	455
Non-current liabilities		356	8 815
Loans and borrowings	23	812 825	0
Liabilities to related parties under debt securities	26	126 901	233 767
Fair value of hedging instruments		0	51
Trade and other payables	25	30 190	137 020
Employee related payable	24	3 195	13 352
Current liabilities		973 111	384 190
Total liabilities		973 467	393 005
Total equity and liabilities		2 224 785	1 467 907

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Revenue		395 449	648 951
Cost of sales	10	(327 412)	(550 055)
Profit on sales		68 037	98 896
Other income	8	1 508	10 350
Distribution expenses	10	(25 895)	(39 481)
General and administrative expenses	10	(32 547)	(28 068)
Other expenses	9	(2 986)	(3 848)
Result from operating activities		8 117	37 849
Financial income		226 883	47 182
Financial expenses		(30 132)	(9 752)
Net financing income	12	196 751	37 430
Profit before tax		204 868	75 279
Income tax expense	13	2 188	(6 173)
Net profit for the reporting period		207 056	69 106
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Cash flow hedges – effective portion of changes in fair value		0	2 374
Cash flow hedges – net change in fair value reclassified to current year profit or loss		(1 930)	(5 453)
Cash flow hedge – settlement of the forward hedging the purchase of shares		19 666	
Other comprehensive income		17 736	(3 079)
Total comprehensive income for the period		224 792	66 027
Basic and diluted earnings per share (PLN)	22	3,24	1,39

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve funds	Other reserves	Cash flow hedge	Retained earnings	Total
1 Jan 2015	16 376	289 806	293 765	0	1 213	83 631	684 791
Comprehensive income for the period							
Net profit	0	0	0	0	0	69 106	69 106
Other comprehensive income	0	0	0	0	(3 079)	0	(3 079)
Total comprehensive income for the period	0	0	0	0	(3 079)	69 106	66 027
Transactions with owners recognised in equity							
Unregistered share capital increase of Pfeiderer Group S.A.	0	0	324 084	0	0	0	324 084
Other reserve capital allocated to purchase of own shares	0	0	(140 000)	140 000	0	0	0
Transfer of 2014 net profit to statutory reserve funds	0	0	60 549	0	0	(60 549)	0
Total transactions with owners recognised in equity	0	0	244 633	140 000	0	(60 549)	324 084
31 Dec 2015	16 376	289 806	538 398	140 000	(1 866)	92 188	1 074 902

Notes are an integral part of these annual separate financial statements

	Share capital	Share premium	Statutory reserve funds	Other reserves	Cash flow hedges	Retained earnings	Total
1 Jan 2016	16 376	289 806	538 398	140 000	(1 866)	92 188	1 074 902
Comprehensive income for the period							
Net profit	0	0	0	0		207 056	207 056
Other comprehensive income	0	0	0	0	17 736		17 736
Total comprehensive income for the period	0	0	0	0	17 736	207 056	224 792
Transactions with owners recognised in equity							
Share capital issue	4 975	335 434	(324 084)	0	0	0	16 325
Dividend payout	0	0	0	0	0	(64 701)	(64 701)
Transfer of a portion of 2015 net profit to statutory reserve funds	0	0	4 405	0	0	(4 405)	0
Total transactions with owners recognised in equity	4 975	335 434	(319 679)	0	0	(69 106)	(48 376)
31 Dec 2016	21 351	625 240	218 719	140 000	15 870	230 138	1 251 318

Notes are an integral part of these annual separate financial statements

STATEMENT OF CASH FLOWS

	Note	01.01.2016 31.12.2016	01.01.2015 31.12.2015
Cash flows from operating activities			
Net profit for the reporting periods		207 056	69 106
Adjustments		(176 227)	21 295
Depreciation and amortisation	10	16 511	22 167
Foreign exchange gains		(5 384)	(5 239)
Dividend and interest for the period		(192 398)	(36 644)
Loss/ gain on investing activities		(121)	207
Income tax expense	13	(2 188)	6 173
Changes in:			
- trade and other receivables		27 733	(19 925)
- inventories		(374)	18 870
- trade and other payables	32	(22 601)	31 949
- employee benefit obligations		370	(1 037)
Result on forward contracts		2 224	5 453
Other adjustments		0	(679)
Cash flows from operating activities		30 829	90 401
Interest received		89	64
Interest paid		(1)	(20)
Income tax paid		(676)	(8 617)
Net cash provided by operating activities		30 241	81 828
Cash flows from investing activities			
Disposal of property, plant and equipment		121	102
Dividend received	12	216 957	45 417
Acquisition of a subsidiary		(532 798)	(439)
Disposal of a subsidiary		0	18 098
Acquisition of intangible assets, property, plant and equipment		(23 048)	(36 053)
Granting of loan to the subsidiaries		(98 000)	0
Repayment of loan by subsidiaries		9 500	0
Inflows/(Expenditures) related to settlement of derivatives		21 330	(6 368)
Net cash provided by/ used in investing activities		(405 938)	20 757
Cash flows from financing activities			
Repayment of borrowings and other debt instruments		0	(11 149)
Redemption of debt securities		(1 691 840)	(1 068 773)
Issue of debt securities		1 585 130	1 024 342
Increase in borrowings and other debt instruments from related entities		193 919	0
Inflows from shares issued		337 746	0
Dividend payments		(64 701)	0
Transaction costs related to increase of share capital		0	(13 305)
Interest paid		(10 862)	(7 244)
Net cash used in financing activities		349 392	(76 129)
Total net cash flows		(26 306)	26 456
Increase/(decrease) in cash		(26 306)	26 456
Cash at beginning of the period		30 983	4 527
Cash at end of the period	32	4 677	30 983

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(all amounts in PLN thousand)

1. GENERAL INFORMATION

Pfleiderer Group S.A. is a company domiciled in Poland, which shares are publicly traded.

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

On 30 September 2016, the District Court in Białystok entered into the National Court Register the change of the business name and registered office of the Company. The business name of the Company has been changed from "Pfleiderer Grajewo Spółka Akcyjna" to "Pfleiderer Group Spółka Akcyjna" and the registered office has been changed from Grajewo to Wrocław. The name and registered office of the Parent have been changed based on the resolution no. 9 of the Ordinary General Shareholders' Meeting adopted on 29 June 2016. .

The Company's registered office is at ul. Strzegomska 42AB, Wrocław, Poland.

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

As at 31 December 2016, Pfleiderer Group S.A. was the Parent Company with respect to the following companies:

- PCF GmbH (formerly Pfleiderer GmbH, please, see Note 16.1) located in Neumarkt, Germany,
- Pfleiderer Polska Sp. z o.o. located in Wrocław.

Moreover, as at 31 December 2016, Pfleiderer Grajewo S.A. held a 100% interest in entity Blitz 11-446 GmbH (50% direct interest and 50% indirectly through PCF GmbH).

These annual separate financial statements were approved by the Management Board on 25 April 2017.

The Company prepared the consolidated financial statements for the financial year ended 31 December 2016, which were approved by the Management Board on 25 April 2017.

2. THE COMPANY'S PRINCIPAL BUSINESS ACTIVITY

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

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

(all amounts in PLN thousand)

3. COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

As at 31 December 2016, the Company's Management Board consisted of:

- | | |
|-----------------------|-----------------------------------|
| • Michael Wolff | President of the Management Board |
| • Wojciech Gątkiewicz | Member of the Management Board |
| • Dirk Hardow | Member of the Management Board |
| • Rafał Karcz | Member of the Management Board |
| • Richard Mayer | Member of the Management Board |

On 2 March 2016 the following changes took place based on decision of the Supervisory Board of Pfleiderer Group S.A.:
appointment of Mr. Richard Mayer to the Management Board for a position of Member of the Management Board - Chief Financial Officer;

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

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

On 1 June 2016, the Supervisory Board dismissed Mr. Gerd Schubert from a position of Member of the Management Board – Chief Operating Officer.

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

On 15 September 2016, Supervisory Board changed the position of Mr. Wojciech Gątkiewicz by dismissing Mr. Wojciech Gątkiewicz from a position of Member of the Management Board – Chief Transformation Officer and appointing for a position of the Member of Management Board – Chief Sales Officer.

The members of the Supervisory Board of the Company as of 31 December 2016 are as follows:

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

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

The aforementioned resignations were a consequence of the completion of reorganization of the Capital Group. As a result of the reorganization, including acquisition of shares in PCF GmbH (formerly Pfleiderer GmbH), the Company became parent entity with respect to other entities of the Group where Mr. Richard Mayer, Mr. Gerd Hammerschmidt and Mr. Jochen Schapka serve as members of the Managing Authorities or they are engaged in positions which cannot be combined with positions of the members of the Supervisory Board of the Parent Company.

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

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

(all amounts in PLN thousand)

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

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

4. PERIODS COVERED BY THE SEPARATE FINANCIAL STATEMENT AND THE COMPARATIVE DATA

This separate financial statement has been prepared for the year ended 31 December 2016, while the comparative financial data and notes relate to the year ended 31 December 2015.

5. BASIS OF PREPARATION

a) Statement of compliance

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

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

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

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

- IFRS 9 Financial Instruments (along with amendments): Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting (effective date: 1 January 2018),
- IFRS 14 Regulatory Deferral Accounts: Accounting and disclosure principles for regulatory deferral accounts. (effective date: 1 January 2016, The European Commission has decided not to approve the transitional standards in anticipation of the appropriate standard),
- IFRS 15 Revenue from Contracts with Customers: The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition (effective date: 1 January 2018),
- IFRS 16 Leases: IFRS 16 eliminates the classification of leases as either operating lease or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease (effective date 1 January 2019),
- Amendments to IAS 12: Clarification of the method of deferred tax asset settlement on unrealized losses (effective date 1 January 2017),
- Amendments to IAS 7: The initiative on changes to the disclosures (effective date: 1 January 2017),
- Amendments to IFRS 10 and IAS 28: Deals with the sale or contribution of assets between an investor and its joint venture or associate (effective date: not specified),
- Amendments to IFRS 15 – clarify some of the Standard's requirements and provide additional transitional simplification for companies that are implementing the new Standard (effective date: 1 January 2018),

(all amounts in PLN thousand)

- Amendments to IFRS 4 – The amendments provide two optional solutions, an overlay approach and a deferral approach, to reduce the impact of the differing effective dates of IFRS 9 Financial Instruments and the forthcoming insurance contract standard (effective date: 1 January 2018),
- Amendments to IFRS 2 – The amendments, clarifying how to account for certain types of share-based payment transactions (effective date: 1 January 2018),
- Annual Improvements to IFRS - cycle: 2014-2016 (effective date: 1 January 2018 save for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017).

This cycle of improvements contains amendments to the following standards and specific issues:

- IFRS 1 – Delete short-term exemptions for first-time adopters,
- IFRS 12 – The standards applies to entities that has an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5,
- IAS 28 – Clarification on the choice of an exception to the use of the equity method,
- IFRIC 22 – provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance (effective date: 1 January 2018),
- Amendments to IAS 40 - The Amendments provide clarification on transfers to, or from, investment properties (effective date: 1 January 2018).

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

b) Basis of accounting

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

c) Functional and presentation currency

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

d) Estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 is included in the following Notes:

- Note 6, Section e (iv) and f (iii) – useful lives of property, plant and equipment and intangible assets – determined based on estimated useful lives of property, plant and equipment and intangible assets and verified at least annually.
- Note 13, 18 – Corporate income tax - recognition of deferred tax assets, based on the estimate about future taxable profits against which tax losses carried forward can be used,
- Note 14 – Recoverable amount of non-financial non-current assets - if there is an indicator for impairment, the recoverable amount of non-financial non-current assets is determined as the higher of fair value reduced by cost to sell or value in use (based on discounted cash flows) estimated by applying the appropriate discount rate (cost

(all amounts in PLN thousand)

of capital, increase rates), using the assumed discount rate and cash flow growth rate,

- Note 20 – Derecognition of trade receivables from the statement of financial position based on analysis of risks and benefits transfer and degree of involvement,
- Note 24 – Measurement of liabilities under defined employee benefits -employee benefits are evaluated by an actuary. The valuation is based on certain assumptions regarding interest rates, remuneration increase, inflation rate and employee turnover ratio,
- Note 27 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments,
- Note 28 – Classification of lease agreements – the Management Board of Pfleiderer Group S.A. classifies lease agreements based on assessment of acquired/transferred risks and rewards associated with the assets used under a lease agreement.
- Note 30 – Contingent liabilities – recognition of contingent liabilities requires estimating the risk and probable outflow of economic benefits as well as defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period.

6. SIGNIFICANT ACCOUNTING POLICIES

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

a) Foreign currencies transactions

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

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

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

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

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

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

(all amounts in PLN thousand)

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

	Dec 31 2016	Dec 31 2015
EUR	4.4240	4.2615
USD	4.1793	3.9011
GBP	5.1445	5.7862
RUB	0.0680	0.0528
RON	0.9749	0.9421

b) Financial instruments – classification and valuation

(i) Non-derivative financial instruments

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

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

The Company initially recognizes loans and receivables as at the date of its inception. All other financial assets and financial liabilities are initially recognized on the transaction date when the entity becomes a party to the contractual terms of the financial instrument.

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

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

Loans advanced and receivables

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

The fair value of trade and other receivables estimated for disclosure purposes is calculated as the present value of future cash flows, discounted using the market interest rate on the reporting date.

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

Cash and cash equivalents comprise cash in hand and demand deposits at banks. Cash and cash equivalents presented in the statement of cash flows include the abovementioned cash and other monetary assets or cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. These assets are initially recognised at fair value plus any directly attributable transaction costs. Effects of changes in fair value, other than impairment losses, and foreign exchange differences on available-for-sale debt instruments, are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented in the fair value reserve in equity. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Financial liability

Financial liabilities valued at amortised cost are initially recognised at fair value reduced by any directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

(all amounts in PLN thousand)

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

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

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

(ii) Derivative financial instruments

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

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

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

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

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

Cash flow hedges

If a derivative financial instrument is designated as a cash flow hedge against a specific risk connected with a recognised asset, liability or a highly probable forecast transaction which could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as a separate hedging reserve in equity. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

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

Otherwise, amounts previously recognised in the statement of comprehensive income are recognised in profit or loss in the same period or periods in which the hedged transaction impacts profit or loss.

(all amounts in PLN thousand)

c) Investments in subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

d) Investments in jointly controlled entities

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

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

e) Property, plant and equipment

(i) Owned property, plant and equipment

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

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

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

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

(all amounts in PLN thousand)

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

As at the initial recognition date, the Company determines whether the contract is lease or contains elements of leases.

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

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

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

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

(iii) Subsequent expenditure

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

(iv) Depreciation

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

The estimated useful lives of property, plant and equipment adopted by the Group for each category are as follows:

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

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

f) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(all amounts in PLN thousand)

(iii) Amortisation

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

Licences	2-3 years
Computer software	2 years

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

g) Inventories

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

The acquisition or production cost of inventory is determined in the following manner:

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

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

h) Impairment losses

(i) Non-derivative financial assets

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

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

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

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

Impairment losses are recognised in profit or loss for the period.

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

(ii) Non-financial assets

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

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

(all amounts in PLN thousand)

specific to the asset or CGU. If an asset does not generate cash flows that are largely independent of those from other assets, value in use is estimated for smallest identifiable group of assets that generates cash flows.

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

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

i) Equity

(i) Ordinary shares

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

(ii) Dividends

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

j) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

The Company is required by applicable law to withhold and pay contributions for future pension benefits of its employees. Contributions paid by both the Company and by an employee are done in accordance with the government program and represent a defined contribution plan. Accordingly, the Company's liabilities for each period are recognised on the basis of the amounts of contributions to be paid for the period.

(iii) Other non-current employee benefits - retirement bonuses

In accordance with the remuneration system, employees of the Company are entitled to receive retirement benefits (one-off payment upon retirement).

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

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

(all amounts in PLN thousand)

k) Provisions

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

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

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

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

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

l) Revenue

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

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

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

As a result of a transfer of Operational contribution of Operational Activity to Pfleiderer Grajewo Sp. z o.o., the Company has been operating only as a holding company since 1 September 2016.

m) Operating lease payments

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

n) Finance lease payments

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

o) Net foreign exchange gains/loss

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

(all amounts in PLN thousand)

p) Net finance income and costs

Finance income includes interest income on funds invested by the Company, reclassifications of net gains previously recognised in other comprehensive income, foreign currency gains (excluding gains from foreign currency differences classified to other operating income) and dividend income. Interest income is recognised in profit or loss on an accrual basis using the effective interest rate method.

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

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

q) Income tax expense

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

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

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

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

Deferred tax asset is not recognised for:

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

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

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

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

(all amounts in PLN thousand)

r) Earnings per share

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

7. OPERATING SEGMENTS

The Company presents information on operating segments in the annual consolidated financial statements for the year ended 31 December 2016.

8. OTHER OPERATING INCOME

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Profit on sale of property, plant and equipment	121	0
Reversal of impairment loss on receivables	0	1 359
Compensations and penalties received	21	2
Release of unused accruals and deferred income	291	0
Operating foreign exchanges gains	0	4 729
Other operating income	1 075	4 260
Total	1 508	10 350

In 2015, other operating income of PLN 4 260 thousand included income from the sale of CO2 emission rights in the amount of PLN 3 819 thousand.

9. OTHER OPERATING EXPENSES

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Loss on disposal of property, plant and equipment	0	207
Impairment loss on trade receivables	56	134
Receivables written-off	38	2
Damages paid	7	13
Recognition of accruals	0	227
Operating foreign exchanges losses	1 055	0
Other operating expenses	1 830	3 265
Total	2 986	3 848

In 2016, other expenses of PLN 1 830 thousand include mainly Group reorganization costs under "ONE Pfeleiderer" project of PLN 1 542 thousand (in 2015, PLN 3 112 thousand).

10. OPERATING EXPENSES BY NATURE

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Materials and energy	217 451	346 950
Depreciation and amortisation	16 511	22 167
External services	43 000	58 110
Taxes and charges	4 605	6 801
Employee benefits expenses	46 511	56 444
Cost of merchandise and raw materials sold	49 632	112 301
Other expenses by kind	8 637	10 564
Total costs	386 347	613 337
Change in inventories of finished goods, accruals and deferrals	295	7 065
Work performed by entity and capitalised	(788)	(2 798)
Total operating expenses	385 854	617 604
including:		
Distribution expenses	25 895	39 481
General and administrative expenses	32 547	28 068
Cost of sales	327 412	550 055

11. EMPLOYEE BENEFITS EXPENSES

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Salaries and wages	38 031	46 866
Social security contributions	7 714	10 892
Change in retirement benefit obligations	(146)	(704)
Change in unused holiday accrual	243	(111)
Change in bonus accrual	(37)	(499)
Other employees' benefits	705	0
Total	46 510	56 444

12. FINANCIAL INCOME AND EXPENSES

Disclosed in profit or loss for the period:

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Interest income	4 184	512
Net foreign exchange gains from financing activities	4 353	0
Gain on disposal of shares in subsidiaries	0	1 253
Dividend income	216 957	45 417
Other financial income	1 389	0
Financial income	226 883	47 182
Interest expense	27 272	7 041
Losses on disposal of shares and assets in subsidiaries	0	10
Other finance costs	2 860	2 701
Financial costs	30 132	9 752
Net financing income	196 751	37 430

In 2016, interest income of PLN 4 184 thousand include mainly interest on the loan granted to Pfeleiderer MDF Sp. z o.o. (PLN 4 095 thousand).

Net foreign exchange gains from financing activities in the amount of EUR 4 353 thousand refer to the valuation of euro denominated loan granted by Pfeleiderer Service GmbH (on 1 June 2016 Pfeleiderer Service GmbH was merged with Pfeleiderer GmbH) and obligation taken over from Atlantik SA representing proceeds from sale of Pfeleiderer Group S.A. shares held by Pfeleiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A. (the loan and the liability are described in Note 23).

In 2016 the Company received the dividend payments from the following subsidiaries:

- The Ordinary Shareholders Meeting of Pfeleiderer Prospan S.A. dated 29 June 2016 adopted a resolution on the distribution of net profit for the year 2015, providing for a dividend payment for the Company in the amount of PLN 37 721 thousand. The dividend was paid on 12 July 2016.
- The Extraordinary Shareholders Meeting of Pfeleiderer Prospan S.A. dated 21 November 2016 adopted a resolution on the distribution of reserve capital, providing for an advance dividend payment for Pfeleiderer Group S.A in the amount of PLN 139 882 thousand. Pursuant to the Management Board resolution dated 22 December 2016 Pfeleiderer Prospan S.A allocated PLN 12 000 thousand from the profit for the year 2016 for an advance dividend payment to Pfeleiderer Group S.A. The advances were paid on 27 December 2016.
- The Ordinary Shareholder Meeting of Pfeleiderer Silekol Sp. z o.o. dated 30 June 2016 adopted a resolution on the distribution of net profit for the year 2015, providing for a dividend payment for the Company in the amount of PLN 27 354 thousand. The dividend was paid on 12 July 2016.

Other financial income in 2016 of PLN 1 389 thousand represents the reduction in the cost of the option premium paid in 2015 hedging the payment of the purchase price of 1 share of PCF GmbH (PLN 1 129 thousand) (now PCF GmbH). The conditional sales agreement dated 5 October 2015 determined the formula for the return by Atlantik SA of part of the costs related to the acquisition of a share in PCF GmbH and the issue of shares by the reduction in the purchase price of the share. Other financial income also includes income from the settlement of the mutual intercompany sureties granted by Polish companies of the Pfeleiderer Group (PLN 259 thousand).

Interest expenses in 2016 in the amount PLN 27 272 thousand include interest on euro denominated loan and on obligation due to PCF GmbH taken over from Atlantik SA (the loan and the liability are described in Note 23) as well as interest on commercial papers issued in the form of zero-coupon bonds taken by the subsidiary Pfeleiderer Prospan S.A.

(all amounts in PLN thousand)

Other financial costs in 2016 in the amount of PLN 2 860 thousand include factoring costs (PLN 1 125 thousand), current financing package service costs (PLN 685 thousand), and the costs related to the settlement of mutual intercompany sureties granted by the Polish companies of Pfleiderer Group (PLN 981 thousand).

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

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Interest income on financial assets	4 184	512
Interest expense on financial liabilities	(27 272)	(7 041)
	(23 088)	(6 529)

13. INCOME TAX EXPENSE

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Income tax expense		
Current portion of income tax	215	7 823
Deferred income tax		
Relating to recognition and reversal of temporary differences	(2 403)	(1 650)
Income tax expense recognised in profit of the period	(2 188)	6 173

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

		1 Jan 2016 31 Dec 2016		1 Jan 2015 31 Dec 2015
Profit before tax	%	204 868	%	75 279
Tax at domestic rate	19%	38 925	19%	14 303
Non-tax-deductible expenses	0.09%	187	0.53%	402
Unrecognized deferred tax	0.11%	218	0.00%	0
Dividends received	(20.12%)	(41 222)	(11.33%)	(8 532)
Non-taxable income	(0.14%)	(296)	(0.00%)	0
Effect on income tax	(20.17%)	(41 113)	(10.80%)	(8 130)
Income tax at effective tax rate	(1.07%)	(2 188)	8.20%	6 173
Income tax disclosed in profit of the period		(2 188)		6 173

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)



14. PROPERTY, PLANT AND EQUIPMENT

Gross value	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan 2015	111 262	411 575	22 932	25 483	571 252
Increases	0	0	0	30 511	30 511
Disposals	267	13 988	723	0	14 978
Transfers	8 994	28 044	1 431	(41 438)	(2 969)
31 Dec 2015	119 989	425 631	23 640	14 556	583 816
1 Jan 2016	119 989	425 631	23 640	14 556	583 816
Increases	0	0	3	27 909	27 912
Decreases	0	9 778	0	0	9 778
Transfers	1 996	9 066	891	(12 103)	(150)
Decreases resulting from contribution in kind of Operational Activity to related entity	(121 556)	(424 801)	(24 270)	(30 363)	(600 989)
31 Dec 2016	429	118	264	0	812

Notes are an integral part of these annual separate financial statements

PFLEIDERER GROUP S.A.Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)

Accumulated depreciation and impairment losses	Land, buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan 2015	74 248	323 906	17 286	0	415 440
Depreciation	2 757	15 560	2 344	0	20 661
Disposals	226	13 681	724	0	14 631
31 Dec 2015	76 779	325 785	18 906	0	421 470
1 Jan 2016	76 779	325 783	18 906	0	421 468
Depreciation	2 100	11 481	1 679	0	15 259
Disposals	0	9 778	0	0	9 778
Decreases resulting from contribution in kind of Operational Activity to related entity	(78 767)	(327 397)	(20 326)	0	(426 490)
31 Dec 2016	112	89	259	0	459
Net value					
1 Jan 2015	37 014	87 669	5 648	25 483	155 814
31 Dec 2015	43 210	99 846	4 736	14 556	162 348
1 Jan 2016	43 210	99 848	4 734	14 556	162 348
31 Dec 2016	318	30	5	0	353

Notes are an integral part of these annual separate financial statements

Impairment of non-financial non-current assets

The Management Board did not identify any impairment indicators as at 31 December 2016.

As at 31 December 2016, all properties were subject to a registered debenture that forms security for bank loans.

15. INTANGIBLE ASSETS

Gross value	Licences, computer software and other
1 Jan 2015	21 416
Transfers	2 969
31 Dec 2015	24 385
1 Jan 2016	24 385
Disposals	632
Decreases resulting from contribution in kind of Operational Activity to related entity	(19 086)
Transfers	150
31 Dec 2016	4 817
Accumulated amortisation and impairment losses	
1 Jan 2015	18 834
Amortisation	1 506
31 Dec 2015	20 340
1 Jan 2016	20 340
Amortisation	1 252
Disposals	632
Decreases resulting from contribution in kind of Operational Activity to related entity	(16 143)
31 Dec 2016	4 817
Net value	
1 Jan 2015	2 582
31 Dec 2015	4 045
1 Jan 2016	4 045
31 Dec 2016	0

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

As at 31 December 2016 intangible assets were not used as security for bank loans and other borrowings.

(all amounts in PLN thousand)

16. INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries comprise:

	31 Dec 2016	31 Dec 2015
Interest in subsidiaries	2 109 553	785 743
Non-current loans advanced to subsidiaries	103 069	10 473
	2 212 622	796 216

16.1. Interest in subsidiaries

The Company's interests in subsidiaries comprise:

	Country	Value of shares at acquisition cost 31 Dec 2016	Direct ownership interest	Country	Value of shares at acquisition cost 31 Dec 2015	Ownership interest
Pfleiderer MDF Sp. z.o.o.	Poland	0	0% **	Poland	197 054	100%
Pfleiderer Silekol Sp. z.o.o.	Poland	0	0% **	Poland	117 428	100%
Pfleiderer Prospan S.A.	Poland	0	0%**	Poland	470 155	100%
Jura Polska Sp. z.o.o.	Poland	0	0%**	Poland	1 053	100%
Pfleiderer Polska Sp. z.o.o.	Poland	932 310	100%	Poland	52	100%
PCF GmbH*	Germany	1 177 243	100%	Poland	0	0%
		2 109 553			785 742	

* formerly Pfleiderer GmbH

**Pfleiderer Group S.A. owns indirectly 100% interests in the entities through Pfleiderer Polska Sp. z o.o.

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

	Country	Value of shares at acquisition cost 31 Dec 2016	Direct Ownership interest	Country	Value of shares at acquisition cost 31 Dec 2015	Ownership interest
Blitz 11-446 GmbH	Germany	65	50%*	Germany	65	50%
		65			65	

* PCF GmbH owns 50% direct interest in Blitz 11-446 GmbH, therefore Pfleiderer Group owns 100% share in the entity indirectly

Acquisition of subsidiary

On 19 January 2016, Pfleiderer Group S.A. acquired from Atlantik S.A. the only share in PCF GmbH and its subsidiaries, representing 100% of the share capital and authorizing the exercise of 100% of the voting rights at the general meeting of shareholders (effectively from 4 January 2017 Pfleiderer GmbH changed the name to PCF GmbH). The purchase price amounted to PLN 1 177 243 thousand. The acquisition was an integral part of the "ONE Pfleiderer" project aimed at the creation of a fully integrated Group.

Consideration transferred:

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

- EUR 75 766 thousand (PLN 336 962 thousand) – bank transfers,
- EUR 43 587 thousand (PLN 193 919 thousand) – bank transfer financed by the loan granted by subsidiary,

(all amounts in PLN thousand)

- EUR 7 375 thousand (PLN 32 813 thousand) – non-cash settlement, the amount which was settled through reduction of the purchase price and representing a surplus of transaction costs in excess of the limit in the amount of EUR 11.0 million agreed with Atlantik S.A.
- EUR 134 979 thousand (PLN 600 521 thousand) – non-cash settlement, assumption of obligation of Atlantik S.A. due to Pfleiderer Service GmbH 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. (based on Acquisition Agreement, dated 5 October 2015).

Acquisition cost:

The Company incurred acquisition related costs of PLN 13 028 thousand (EUR 2 931 thousand) on advisory costs, as well as German tax on purchase of property and notarial fees. These costs increased the value of acquired investment.

Pfleiderer Group reorganization in Poland:

The Company performed in a course of 2016 year an internal reorganisation of the capital group in Poland. The reorganisation represented the implementation of previously announced organizational and operational integration of Core East and Core West operating segments. The main purpose of the reorganisation was to simplify the ownership and organizational structure of the Group as well as to increase the operational effectiveness, with maintaining the fiscal neutrality of the process. The reorganization resulted in achieving a three layer organizational structure of the Group in Poland where:

- (i) the Company is a holding company, maintaining the position of the ultimate parent entity of the entire Group;
- (ii) the Company's subsidiary, i.e. Pfleiderer Polska Sp. z o.o. (formerly Pfleiderer Services Sp. z o.o., change of name was registered on 13 October 2016) conducts sale, purchase and administration activity for and on behalf of the remaining Group companies in Poland;
- (iii) remaining Polish companies of the Group, whose shares are held by Pfleiderer Polska Sp. z o.o. conduct (as a rule) production activity only.

The same, three-layer organizational structure exists in Core West operating segment of the Group.

Reorganization was approved by the Supervisory Board of the Company and, as required by law and status regulations, by the General Meeting of Shareholders.

The following actions were performed within the reorganization:**Contribution in-kind of Operational Activity of the Company to Pfleiderer Grajewo Sp. z o. o.**

On 31 August 2016, a contribution in-kind of the Company's enterprise was made to Pfleiderer Grajewo Sp. z o.o., a subsidiary located in Grajewo. The Company was the sole shareholder of Pfleiderer Grajewo Sp. z o.o. on the date of contribution in kind. The contribution in kind was made based on the Resolution no. 8 of the General Shareholders Meeting, dated 29 June 2016, on the consent to transfer the Company's enterprise, including, being a part of the enterprise, rights of perpetual usufruct to lands and ownership right of buildings and equipment erected thereon, constituting subject of ownership separated from lands.

On 31 August 2016, on the basis of the aforementioned resolution of the General Meeting, the Company concluded an agreement with Pfleiderer Grajewo Sp. z o.o. on making a contribution in kind to the increased share capital of Pfleiderer Grajewo Sp. z o.o., as well as the agreement on the transfer of the rights of perpetual usufruct to lands and ownership right of buildings.

Based on the aforementioned agreements, the Company transferred to Pfleiderer Grajewo Sp. z o.o. an enterprise in the meaning of Article 551 of the Civil Code (an organized part of an enterprise in the meaning of Article 4a (4) of the Corporate Income Tax Act and article 2 (27e) of the Act on Value Added Tax) designated for carrying out an economic

(all amounts in PLN thousand)

activity, including manufacturing, marketing, sales and distribution activity of manufactured products, as well as activity supporting the Company's business (Operational Activity). All tangible and intangible assets, including all rights and obligations under the commercial contracts and other agreements concluded by the Company were included in the Operational Activity being subject to the transfer.

The agreements were concluded in connection with the adoption of the resolution of Extraordinary Shareholders Meeting of Pfleiderer Grajewo Sp. z o.o. dated 31 August 2016 on the increase of share capital of Pfleiderer Grajewo Sp. z o.o. by the amount of PLN 39 995 thousand i.e. up to the amount of PLN 40 000 thousand by way of the establishment of 799 900 new shares with a nominal value of PLN 50.00 each, which were wholly acquired by the Company and covered by a non-cash contribution in the form of the Company's Operational Activity. Further to the transfer of Operational Activity, starting from 1 September 2016 Pfleiderer Group S.A. became a pure holding company. The below table presents assets and liabilities (at their book values as of 31 August 2016) transferred to Pfleiderer Grajewo Sp. z o.o. within contribution in kind of Operational Activity:

Assets	
Property, plant and equipment	174 498
Intangible assets	2 943
Advances paid on fixed assets	239
Non-current assets	177 680
Inventories	55 512
Trade and other receivables	22 614
Cash and cash equivalents	1 359
Current assets	79 485
Total assets	257 165
Liabilities	
Employee related payables	7 498
Deferred tax liabilities	1 357
Fair value of hedging instruments	684
Non-current liabilities	9 539
Trade and other payables	89 889
Fair value of hedging instruments	546
Employee related payable	10 630
Current liabilities	101 065
Total liabilities	110 604
Net assets	146 561

The settlement of the contribution in kind of Operational Activity was made based on the book value of transferred assets and liabilities and was booked in correspondence with the increase in the historical cost of the investment in the subsidiary Pfleiderer Grajewo Sp. z o.o.

Change of the name of the Company

On 29 June the Ordinary General Shareholders' Meeting adopted resolution on the change of the name and registered office of the Company as well as authorizing the Supervisory Board of the Company to adopt the consolidated text of the Company's statute. On 30 September 2016, the District Court in Białystok entered the change of the business name and registered office of the Company into the National Court Register. AS a result, the business name of the Company has been changed from "Pfleiderer Grajewo Spółka Akcyjna" to "Pfleiderer Group Spółka Akcyjna" and the registered office has been changed from Grajewo to Wrocław.

(all amounts in PLN thousand)

Division through separation of Pfleiderer Grajewo Sp. z o.o.

As of 29 December 2016, as a part of the next stage of the reorganization, the increase of share capital of Pfleiderer Polska Sp. z o.o. was registered and thus the division through separation of Pfleiderer Grajewo Sp. z o.o. was registered.

The division through separation was made on the basis of a division plan agreed and signed by Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Polska Sp. z o.o. on 3 October 2016. Within the division through separation an organized part of an enterprise related to marketing, sale and distribution of manufactured products, as well as ancillary activity, e.g. in the scope of accounting/finance, HR, IT, administration, quality assurance, integrated planning, controlling, customer service, safety and environmental protection and product development was transferred to Pfleiderer Polska Sp. z o.o. The rest of the organized part of Pfleiderer Grajewo Sp. z o.o., in particular related to the activity of manufacturing of wood-based products, remained in Pfleiderer Grajewo Sp. z o.o.

Transfer of assets' ownership from Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o. to Pfleiderer Polska Sp. z o.o.

On 29 December 2016, the Company's subsidiaries, i.e. Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Pfleiderer Polska Sp. z o.o. entered into an agreement to transfer assets' ownership of Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o. to Pfleiderer Polska Sp. z o.o. The transferred components included, in particular, certain rights and obligations arising from the selected sales agreements concluded with the customers of Pfleiderer Prospan S.A. and Pfleiderer MDF Sp. z o.o.

Contribution of shares held by the Company to Pfleiderer Polska Sp. z o.o.

Subsequently, on 29 December 2016, the Company entered into an agreement with Pfleiderer Polska Sp. z o.o. for the non-cash contribution to the increased share capital of Pfleiderer Polska Sp. z o.o. According to the agreement, the Company transferred to Pfleiderer Polska Sp. z o.o. to cover the increase of share capital, all shares held by the Company in Pfleiderer Prospan S.A. and all shares in Pfleiderer Grajewo Sp. z o.o., Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Jura Polska Sp. z o.o., constituting 100% interest in the share capital of each of the companies (Non-cash Contribution).

As a result of division through separation of Pfleiderer Grajewo Sp. z o.o. and the transfer of assets' ownership, effective from 29 December 2016 Pfleiderer Polska Sp. z o.o. took over sales, purchasing and administration function in the capital group in Poland.

The table below presents reconciliation of change in historical value of shares in subsidiaries in 2016:

	31 Dec 2015	Acquisition of PCF GmbH	Establishing Pfleiderer Grajewo Sp. z o.o.	Contribution in-kind of Operational Activity	Contribution in-kind of shares	31 Dec 2016
Pfleiderer MDF Sp. z.o.o.	197 054	-	-	-	(197 054)	-
Pfleiderer Silekol Sp. z.o.o.	117 428	-	-	-	(117 428)	-
Pfleiderer Prospan S.A.	470 155	-	-	-	(470 155)	-
Jura Polska Sp. z.o.o.	1 053	-	-	-	(1 053)	-
Pfleiderer Polska Sp. z o.o.	52	-	-	-	932 258	932 310
Pfleiderer Grajewo Sp. z o.o.	-	-	7	146 561	(146 568)	-
PCF GmbH	-	1 177 243	-	-	-	1 177 243
	785 742	1 177 243	7	146 561	0	2 109 553

(all amounts in PLN thousand)

16.2. Loans advanced to subsidiaries

The Company advanced the following loans to subsidiaries:

Non-current loans:	31 Dec 2016	31 Dec 2015
Loan advanced to Pfleiderer MDF Sp. z o.o.	103 069	10 473
	103 069	10 473

In 2016, the Company granted loans to Pfleiderer MDF Sp. z o.o. in the amount of PLN 98 000 thousand. In 2016, Pfleiderer MDF Sp. z o.o. repaid one loan in the amount of PLN 9 500 thousand.

16.3. Impairment of investments in subsidiaries

The Management Board performed impairment test for investments in subsidiaries as at 31 December 2016.

The recoverable amount of investments in subsidiaries PCF GmbH and Pfleiderer Polska Sp. z o.o. was determined based on their value in use. The calculation was performed based on cash flow projections related to the continued holding of investments in subsidiaries, adopted in budgets for the years until 2021 approved by the Management Board. Cash flows beyond five year period are extrapolated at a growth rate of 2% using the Gordon Growth Model. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. The calculation also takes into consideration the current debt of individual investments under analysis, as well as the Company's percentage share in subsidiaries' equity.

The key assumptions used to calculate the value in use as at 31 December 2016 were as follows:

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- discount rates – 8.55%;
- the percentage share in subsidiaries' equity reflects the current structure of the Capital Group Pfleiderer Group S.A.

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

The test did not reveal any impairment of investments in subsidiaries as at 31 December 2016.

(all amounts in PLN thousand)

16.4. Key financial data of subsidiaries:

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/(loss)
1 Jan–31 Dec 2016					
PCF GmbH – in PLN thousand,	2 761 762	1 624 537	1 137 225	22 587	345 474
Pfleiderer Polska Sp. z.o.o. – in PLN thousand,*)	1 664 364	70 134	1 594 230	0	804
	4 426 126	1 694 671	2 731 455	22 587	346 278

*) Unaudited data

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/(loss)
1 Jan–31 Dec 2015					
Pfleiderer MDF Sp. z o.o.	460 464	257 104	203 360	290 290	22 471
Pfleiderer Silekol Sp. z.o.o.	175 986	61 963	114 023	485 447	27 354
Pfleiderer Prospan S.A.	577 596	98 177	479 419	491 153	41 001
Jura Polska Sp. z.o.o.*)	15 518	14 185	1 333	91 823	(627)
Pfleiderer Polska Sp. z.o.o.*)	18	0	18	0	(1)
	1 229 582	431 429	798 153	1 358 713	90 198

*) Unaudited data, the change of the Company's name from Pfleiderer Services Sp. z o.o. to Pfleiderer Polska Sp. z o.o. was registered on 13 October 2016.

17. OTHER LONG TERM FINANCIAL ASSETS

	31 Dec 2016	31 Dec 2015
Other long term financial assets		
Available for sale	75	75
-shares in companies not listed on a regulated security market	75	75
	75	75

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18. DEFERRED INCOME TAX ASSET AND LIABILITY

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

	Assets 31 Dec 2016	Liabilities 31 Dec 2016	Net 31 Dec 2016	Assets 31 Dec 2015	Liabilities 31 Dec 2015	Net 31 Dec 2015
Non-current assets						
Property, plant and equipment	3	0	3	0	5 212	(5 212)
Non-current loans advanced to subsidiaries	0	79	(79)	0	7	(7)
Current assets						
Inventories	0	0	0	622	0	622
Trade and other receivables	3	0	3	559	0	559
Non-current liabilities						
Employee benefit obligations	33	0	33	1 477	0	1 477
Current liabilities						
Liabilities under loans, borrowings and other debt securities	42	827	(785)	0	0	0
Trade and other payables	120	1	119	527	18	509
Employee benefit obligations	522	0	522	1 465	0	1 465
Deferred income tax asset/liability	723	907	(184)	4 650	5 237	(587)
Deferred income tax asset and liability offset	0	(723)		0	(4 650)	
Deferred income tax liability disclosed in the statement of financial position	0	184		0	587	

Notes are an integral part of these annual separate financial statements

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Changes in temporary differences during the reporting period:

For the period 1 January - 31 December 2016

	As at 1 Jan 2016	Change in temporary differences recognised in profit or loss for the period	As at 31 Dec 2016
Non-current assets			
Property, plant and equipment	(5 212)	5 215	3
Non-current loans advanced to subsidiaries	(7)	(72)	(79)
Current assets			
Inventories	622	(622)	0
Trade and other receivables	559	(556)	3
Non-current liabilities			
Employee benefit obligations	1 477	(1 444)	33
Current liabilities			
Liabilities under loans, borrowings and other debt securities	0	(785)	(785)
Trade and other payables	509	(390)	119
Employee benefit obligations	1 465	(943)	522
	(587)	403	(184)
Deferred tax transferred to Pfleiderer Grajewo Sp. z o.o. within contribution in kind of Operational Activity		(1 591)	
Deferred tax asset on the Company's tax loss for the year ended 29 December 2016, used by the tax group		3 358	
Expensing of deferred tax on valuation of cash flow hedge transferred to Pfleiderer Grajewo Sp. z o.o. within contribution in kind of Operational Activity		233	
Deferred income tax related to the occurrence and reversal of temporary differences		2 403	

For the period 1 January – 31 December 2015

	As at 1 Jan 2015	Change in temporary differences recognised in profit or loss for the period	As at 31 Dec 2015
Non-current assets			
Property, plant and equipment	(4 113)	(1 099)	(5 212)
Non-current loans advanced to subsidiaries	(7)	0	(7)
Current assets			
Inventories	782	(160)	622
Trade and other receivables	(2 766)	3 325	559
Non-current liabilities			
Employee benefit obligations	1 663	(186)	1 477
Current liabilities			
Trade and other payables	682	(173)	509
Employee benefit obligations	1 522	(57)	1 465
	(2 237)	1 650	(587)

(all amounts in PLN thousand)

19. INVENTORIES

	31 Dec 2016	31 Dec 2015
Materials and merchandise	0	37 715
Semi-finished products and work in progress	0	35
Finished goods	0	17 371
Advances for deliveries	23	40
Total	23	55 161

On 31 August 2016, all inventories have been transferred to Pfleiderer Grajewo Sp. z o.o. within contribution in kind of Operational Activity. On 31 December 2015, inventories were disclosed in the statement of financial position at net realisable value, i.e. net of write-downs of PLN 3 274 thousand.

20. TRADE AND OTHER RECEIVABLES

	31 Dec 2016	31 Dec 2015
Trade receivables and advances	4 881	38 792
Current prepayments and accrued income	486	6 110
Current VAT receivables	250	7 215
Other receivables	566	363 337
Total	6 183	415 454

On 31 August 2016, all trade receivables related to Operational Activity have been transferred within contribution in-kind to Pfleiderer Grajewo Sp. z o. o. On 31 December 2016, trade and other receivables are the result of holding activity and are fully current. On 31 December 2015, trade receivables were reduced by impairment losses of PLN 3 410 thousand.

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

Trade and other receivables include the following financial receivables:

	31 Dec 2016	31 Dec 2015
Trade receivables	4 881	38 792
Other receivables	26	363 337
Prepayments for financing costs and acquisition costs	352	2 524
Total	5 259	404 653

Factoring of receivables

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

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

On 31 August 2016, in connection with the contribution in-kind of Operational Activity from the Company to Pfleiderer Grajewo Sp. z o.o., the agreement with PEKAO Faktoring Sp. z o.o., with limit of PLN 100 000 thousand, was transferred from Pfleiderer Group S.A. to Pfleiderer Grajewo Sp. z o.o.

In 2016, until 31 August 2016, under the factoring agreement, the factor financed 100% of the receivables' nominal value, while the cost of financing WIBOR (EURIBOR) + margin was paid by the Company. If debtors fail to pay their liabilities, the

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factor was entitled to claim towards the insurer under the insurance agreement with respect to 90% of the receivables value, and the remaining 10% of the receivables was covered by the Company.

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

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

	31 Dec 2016	31 Dec 2015
Total trade receivables before factoring	4 881	94 673
Receivables derecognised from the statement of financial position	0	(55 881)
Net trade receivables	4 881	38 792

	31 Dec 2016	31 Dec 2015
Factoring receivables as at the reporting date	0	62 089
Derecognised receivables (90%)	0	55 881
Receivables recognised in the statement of financial position up to the amount of continuous involvement (10%)	0	6 208

	31 Dec 2016	31 Dec 2015
Settlement of factoring		
Factoring receivables as at the end of the reporting period	0	62 089
Payments made by customers, not passed to the factor	0	27 064
Payments received concerning receivables derecognised from the statement of financial position	0	(55 881)
Factoring liabilities as at the reporting date	0	33 271

21. EQUITY

	31 Dec 2016	31 Dec 2015
Net value of share capital	21 351	16 376
Number of ordinary shares	64 701 007	49 624 000

21.1. Share capital

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

The share capital consisted of 64 701 007 thousand ordinary shares with a nominal value of PLN 0.33 per share. As at 31 December 2016, all shares were paid up. Shareholders have the right to dividend and are entitled to the one vote per share at the General Meeting.

Shares issuance

On 19 January 2016, the District Court in Białystok registered increase in the share capital of the Company from the sum of PLN 16 376 thousand to the sum of PLN 21 351 thousand through the issue of 15 077 007 series E ordinary shares of PLN 0.33 in par value each, issued pursuant to Resolution No. 3 of the Extraordinary General Shareholders Meeting of 27 July 2015 concerning the increase in the share capital of the Company by way of issuing of new shares, a public offering of newly issued shares, the exclusion of all the pre-emptive rights of the existing shareholders with respect to all the newly

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issued shares, the dematerialization and seeking of the admission of the rights to shares and the newly issued shares to trading on a regulated market operated by the Warsaw Stock Exchange and the amendment to the Company's statute, as well as authorizing the Supervisory Board of the Company to adopt the consolidated text of the Company's statute .

The subscription in the offer involved 15 077 007 of the new shares, which were assigned on 10 December 2015. The issue price per 1 share amounted to PLN 24.

As at 31 December 2015 the value of series E shares was presented in the capital item "Reserves" in the amount of PLN 361 848 thousand and in "Other receivables" (note 20). The value of share issuance presented in "Reserves" was decreased by transaction costs directly attributable to the issuance in the total amount of PLN 37 763 thousand.

In connection with acquisition of shares of PCF GmbH by the Company on 19 January 2016, part of costs related to shares issuance were reimbursed by Atlantik SA (through sale price reduction mechanism). As a result, the value of transaction costs associated with the issuance of shares, decreasing the Company's equity, amounted to PLN 21 439 thousand as at 31 December 2016.

Shareholder structure

The shareholder structure as of the reporting date is as follows:

Shareholder structure as at 31 December 2016*	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	16 772 896	25.92%	16 772 896	25.92%
Atlantic S.A.	16 374 497	25.31%	16 374 497	25.31%
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

According to notifications received from shareholders after 31 December 2016, the following transactions took place on the shares of Pfleiderer Group S.A.:

1. Sale of 1 241 559 shares by Atlantik SA to subsidiaries of Strategic Value Partners LLC:

On 20 December 2016 an agreement on sale of shares with deferred settlement was concluded. Sale of shares was settled on 12 January 2017. The buyers of shares were:

- Yellow Sapphire S.a.r.l. – 885 740 shares
- Kings Forest S.a.r.l. – 355 819 shares

2. Sale of 1 168 694 shares by Atlantik SA to subsidiaries of Strategic Value Partners LLC:

On 7 February 2017 an agreement on sale of shares with deferred settlement was concluded. Sale of the shares was settled on 10 February 2017. The buyers of shares were Yellow Sapphire S.a.r.l. and Kings Forest S.a.r.l. The Company has no information regarding the number of shares purchased by individual companies.

3. Transfer of 1 489 693 shares by Atlantik SA to the benefit of creditors of Atlantik SA for repayment of the debt in the form of non - cash settlement:

On 30 January 2017 Atlantik S.A. accepted an unconditional obligation to transfer between 1 486 409 and 1 494 383 shares of Pfleiderer Group S.A. to creditors of Atlantik SA as partial repayment in the form of non- cash settlement of existing the debt (denominated in euro) with deferred settlement date. The transaction was settled:

- On 17 February 2017 – 613 913 shares
- On 20 February 2017 – 875 770 shares.

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The Company has no information about the buyers of the shares transferred as a result of the above transaction.

The following table presents the changes in the shareholder structure after the balance sheet date:

Shareholders	Number of shares	Ownership interest
Strategic Value Partners LLC* as at 31 Dec 2016	16 772 896	25.92%
12 Jan 2017 acquisition of shares – by subsidiaries	1 241 559	1.92%
10 Feb 2017 acquisition of shares – by subsidiaries	1 168 694	1.81%
Strategic Value Partners LLC* - actual	19 183 149	29.65%
Atlantik SA as at 31 Dec 2016	16 374 497	25.31%
12 Jan 2017 sale of shares	(1 241 559)	-1.92%
10 Feb 2017 sale of shares	(1 168 694)	-1.81%
17 Feb 2017 transfer of shares	(613 913)	-0.95%
20 Feb 2017 transfer of shares	(875 770)	-1.35%
Atlantik SA - actual	12 474 561	19.28%
Others as at 31 Dec 2016	31 553 614	48.77%
17 Feb 2017 transfer of shares	613 913	0.95%
20 Feb 2017 transfer of shares	875 770	1.35%
Others - actual	33 043 297	51.07%
Total	64 701 007	100.00%

The shareholder structure as of the publication date of the financial statements is as follows:

Shareholder structure as at 25 April 2017*	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC **	19 183 149	29.65%	19 183 149	29.65%
Atlantic S.A.	12 474 561	19.28%	12 474 561	19.28%
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	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

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

21.2. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares. The change in share premium in 2016 is a result of share issuance, presented in Note 21.1.

21.3. Statutory reserve funds

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

In 2016, the Company transferred PLN 4 405 thousand from its 2015 net profit to statutory reserve funds.

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21.4. Dividends

On 29 June 2016, the General Meeting of Shareholders passed a resolution to transfer PLN 4 405 thousand from its 2015 net profit to statutory reserve funds and PLN 64 701 thousand to pay the dividend for the Shareholders.

22. EARNINGS PER SHARE

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial year. The Company's net profit attributable to ordinary shares for the financial year ended 31 December 2016 amounted to PLN 207 056 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2015 was PLN 69 106 thousand.

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

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

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Number of shares as at 1 January	49 624 000	49 624 000
Increase of share capital (effective from 19 January 2016)	15 077 007	0
Number of shares as at 31 December	64 701 007	49 624 000
Weighted average number of shares as at 31 December	63 918 321	49 624 000

Basic and diluted earnings per share:

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Basic earnings per share as at 31 December	3.24	1.39
Diluted earnings per share as at 31 December	3.24	1.39

23. BORROWINGS AND OTHER DEBT INSTRUMENTS

	31 Dec 2016	31 Dec 2015
Current liabilities		
Borrowings from related parties	198 407	0
Other financial liabilities	614 418	0
Total	812 825	0

On 5 October 2015, the entity Pfleiderer Group S.A. along with other companies belonging to the Pfleiderer Group: PCF GmbH, Pfleiderer Service 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. and Pfleiderer Silekol Sp. z o.o., concluded the Amendment Agreement amending the super master revolving credit facility of 4 July 2014 (having regard to agreement amending the agreement, this Agreement is called the "Revolving Facility Agreement") with Commerzbank Aktiengesellschaft, Deutsche Bank AG Filiale Deutschlandgeschäft, KfW, BNP Paribas S.A. Niederlassung Deutschland, Powszechna Kasa Oszczędności Bank Polski S.A., Alior Bank S.A., Bank Zachodni WBK S.A., Bank Millennium S.A (mandated lead arrangers), Commerzbank International S.A. (as the credit agent "Agent") Commerzbank Aktiengesellschaft, Filiale Luxemburg (as a security agent "Security Agent").

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All amendments to the Revolving Facility Agreement were concluded conditionally and entered into force on 19 January 2016 along with the completion of the reorganization of the Pfleiderer Group S.A. Group. With effect from 19 January 2016, the Company and the subsidiaries Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. became borrowers under the Revolving Facility Agreement (along with PCF GmbH and Pfleiderer Holzwerkstoffe 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), up to the total agreed limits amount of EUR 20 000 thousand (in case of tranches in EUR) and of PLN 120 000 thousand (in case of tranches in PLN) (Ancillary Facilities).

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

On 4 February 2016, 4 agreements of ancillary financing were signed between:

- Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Bankiem Millennium SA, with the limit of PLN 40,000 thousand,
- Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and PKO Bank Polska S.A. with the limit of PLN 30,000 thousand,
- Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Bankiem Zachodnim WBK SA with the limit of PLN 30,000 thousand,
- Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Alior Bank S.A. with the limit of PLN 20,000 thousand.

These agreements allow financing in the forms of overdrafts, guarantees and letters of credit and operate as Ancillary Facilities in tranches of PLN 200 000 thousand, under the Revolving Facility Agreement and do not provide additional indebtedness.

On 11 February 2016, Pfleiderer Group S.A., Pfleiderer Prospan S.A. and Pfleiderer Silekol Sp. z o.o. repaid all loans raised on the basis of the agreements concluded on 26 June 2013 with Bank Millennium S.A., Alior Bank S.A. and Bank Zachodni WBK S.A., and the securities of the credits were released. On 31 December 2015, Pfleiderer Group S.A. did not carry any liabilities under bank borrowings.

On 8 July 2016, on the basis of documents concluded on 4 July 2016, Pfleiderer Polska Sp. z o.o. and Pfleiderer Grajewo Sp. z o.o. acceded to the Revolving Facility Agreement, becoming borrowers and guarantors. On 8 July 2016, Pfleiderer Polska Sp. z o.o. and Pfleiderer Grajewo Sp. z o.o. also acceded to the Guarantee Agreement, as guarantors for repurchase of "Secured Notes" being part of the "Eastern Segment Guarantors".

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

PFLEIDERER GROUP S.A.Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)



Terms and repayment schedules of the bank borrowings as at 31 December 2016 and 31 December 2015:

Lender	Borrower	Currency	Interest rate	Maturity date	Credit limit	Amount to use	31 Dec 2016	
							Current portion	Non-current portion
Credit line								
Bank Millenium S.A.	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	10 000	10 000	-	-
Millenium S.A. (Ancillary)*	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	31 441	31 441	-	-
Bank Zachodni WBK S.A.	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	20 000	20 000	-	-
Bank Zachodni WBK S.A. (Ancillary)	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	30 000	30 000	-	-
PKO Bank Polski SA	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	20 000	20 000	-	-
PKO Bank Polski SA (Ancillary)	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	30 000	30 000	-	-
Alior Bank SA	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2019-04-30	30 000	30 000	-	-
Alior Bank SA (Ancillary)	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Prospan	PLN	WIBOR 1M + margin	2019-04-30	20 000	20 000	-	-

Notes are an integral part of these annual separate financial statements

PFLEIDERER GROUP S.A.Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)

SA, Pfeleiderer MDF Sp. z o.o., Pfeleiderer Silekol Sp. z o.o.								
Guarantees								
Bank Millennium SA	Pfeleiderer Group S.A.	PLN	2017-02-28 2017-09-20	6 559	-	-	-	-
Limit of credit card								
Bank Millennium SA	Pfeleiderer Group SA, Pfeleiderer Polska Sp. z o.o., Pfeleiderer Grajewo Sp. z o.o., Pfeleiderer Prospan SA, Pfeleiderer MDF Sp. z o.o., Pfeleiderer Silekol Sp. z o.o.	PLN	2019-04-30	2 000	1 912	-	-	-
				200 000	193 353	-	-	-

* Credit limit of PLN 40 000 thousand was reduced by used credit guarantee of PLN 6 559 thousand and credit card limit of PLN 2 000 thousand.

Lender	Currency	Interest rate	Maturity date	Security	Credit limit	31 Dec 2015	
						Current portion	Non-current portion
Millenium S.A.	PLN	WIBOR 1M + margin	2018-06-25	mortgage, pledge	75 000	-	-
Millenium S.A.	PLN	WIBOR 1M + margin	2016-06-25	mortgage, pledge	25 000	-	-
Alior Bank S.A.	PLN	WIBOR 1M + margin	2018-06-25	Mortgage	75 000	-	-
Alior Bank S.A.	PLN	WIBOR 1M + margin	2016-06-25	Mortgage	25 000	-	-
Bank Zachodni WBK S.A.	PLN	WIBOR 1M + margin	2018-06-25	mortgage, pledge	45 000	-	-
Bank Zachodni WBK S.A.	PLN	WIBOR 1M + margin	2016-06-25	mortgage, pledge	15 000	-	-
Bank Ochrony Środowiska S.A.	PLN	WIBOR 1M + margin	2015-10-14	mortgage, pledge	-	-	-
					260 000	-	-

Notes are an integral part of these annual separate financial statements

(all amounts in PLN thousand)

Borrowings from subsidiaries

On 6 October 2015, Pfleiderer Group S.A. concluded the loan agreement with Pfleiderer Service GmbH in order to finance the acquisition of a share in PCF GmbH. Remittance of the loan of EUR 43 587 thousand (PLN 193 919 thousand) was made in January 2016. The agreement may be terminated by both parties with three-month notice period. On 31 December 2016, liabilities under borrowing amounted to EUR 44 848 thousand (PLN 198 407 thousand).

Other financial liabilities

On 5 October 2015, in connection with acquisition of share in PCF GmbH, Pfleiderer Group S.A. concluded the agreement with Atlantik SA, based on which Pfleiderer Group S.A. took over an obligation from Atlantik S.A. due to Pfleiderer Service GmbH 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. As at 31 December 2016, other financial liabilities amounted to EUR 138 883 thousand (PLN 614 418 thousand).

24. EMPLOYEE BENEFIT OBLIGATIONS

	31 Dec 2016	31 Dec 2015
Salaries and wages	427	1 996
Personal income tax	189	816
Social security	235	2 307
Social Benefits Fund	(13)	1 608
Retirement benefit obligations	173	8 565
Unused holiday accrual	197	1 854
Employee bonus accrual	2 159	3 979
Total	3 367	21 125
Non-current portion	172	7 773
Current portion	3 195	13 352

Retirement bonus and disability severance payment obligations

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

Every employee reaching the retirement age, who has the required documented years of service, is entitled to receive retirement money.

Employees with permanent work disability, entitling to disability benefits under the social security scheme, are entitled to receive disability severance payment.

The amount of retirement payment or disability severance payment is computed based on the employee's one-month pay. The amount of bonus or severance payment increases proportionately following ten years of service at the Company at the rate of 10% of the base pay for each year of service above ten years, and following 20 years of service at the Company – at the rate of 20% of the base pay for each year of service above 20 years. Pursuant to Art. 921§1 of the Labour Code, retirement and disability severance payments must not be lower than the employee's one-month pay.

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

(all amounts in PLN thousand)

Assumptions used for calculation of the retirement bonus:

- Data on staff turnover was derived from the statistics of Pfleiderer Group S.A. and from the statistics available to an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. To reflect the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.
- The future mortality rate was based on the probability of death depending on age and based on published statistics and the information from 2014 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the mortality rate of the population of the Company's employees is similar to tables, adjusted for the mortality multiplier. Additionally it was assumed that the mortality rate is constant throughout the whole year.
- The probability of becoming a disabled person was based on the historical data from the Social Insurance Institution and estimates prepared by an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. According to the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does not demonstrate significant sensitivity to slight changes of this parameter.
- The default retirement age for men is 65, and for women is 60, based on the Law signed by the President of the Republic of Poland on 19 December 2016 and its transitional regulations.
- In accordance with the rules governing the award of retirement bonuses, persons terminating their employment with the Company lose their rights to any future retirement bonus and disability severance payment.
- All benefits were calculated is the beginning of each calendar year, with the assumption that all of them are regular distributed throughout the year.
- The calculations were made in PLN.
- The increase in salaries and wages was assumed at 3% per annum.
- The discount rate on future benefits was assumed at 3.59%.

Liabilities under employees bonus

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

25. TRADE AND OTHER PAYABLES

	31 Dec 2016	31 Dec 2015
Trade payables	6 550	63 600
Liabilities under factoring agreements	0	33 272
Liabilities from capital expenditures	4	9 415
Other liabilities	23 636	30 733
Total	30 190	137 020

The decrease in trade payables resulted from the contribution in kind of trade payables related to Operational Activity of the Company to Pfleiderer Grajewo Sp. z o.o.

As at 31 December 2016, other liabilities include in particular German tax on purchase of property in the amount of PLN 22 245 thousand. Direct acquisition of a share in PCF GmbH caused an obligation to pay German tax on purchase of property. The obligation arose from the fact that PCF GmbH directly and indirectly holds shares in Pfleiderer Deutschland GmbH and Pfleiderer Baruth GmbH, while the latter Companies own properties in Germany.

(all amounts in PLN thousand)

As at 31 December 2015, other liabilities included in particular expenditures related to issue of series E shares of PLN 24 458 thousand.

Trade and other payables include the following financial liabilities:

	31 Dec 2016	31 Dec 2015
Trade payables	6 550	63 600
Liabilities under factoring agreements	0	33 272
Liabilities from capital expenditures	4	9 415
Other liabilities	713	29 318
Total	7 267	135 605

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

26. LIABILITIES TO RELATED PARTIES UNDER DEBT SECURITIES

	31 Dec 2016	31 Dec 2015
Liabilities to related parties under debt securities	126 901	233 767
Total	126 901	233 767

The liabilities under debt securities of PLN 126 901 thousand as at 31 December 2016 (31 December 2015: PLN 233 767 thousand) relate to the commercial papers issued in the form of short-term notes. As at 31 December 2016, the notes were held by Pfleiderer Prospan S.A., a subsidiary.

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

27. FINANCIAL INSTRUMENTS

Objectives and methods of financial risk management applied by the Company

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

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

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

The objective of the Company's credit risk management is to reduce losses which could be incurred due to customers' insolvency. As a result of contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. executed on 31 August 2016, credit risk is limited due to the fact that the Company does not perform any operating activity and does not have any trade receivables.

(all amounts in PLN thousand)

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

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

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

The objective of currency risk management is to minimise losses arising from unfavourable changes in foreign exchange rates. The Company monitors its currency position in order to project its cash flows. From 1 September 2016, effectively, currency risk in the Company is limited due to the fact that the Company does not perform any operating activities and does not have any trade receivables or trade payables in the foreign currency. However, currency risk is related to the borrowing from subsidiary in EUR, drawn for financing the acquisition of PCF GmbH, and other finance liabilities related to obligation taken over from Atlantik SA Detailed information is presented in Note 23.

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

27.1. Credit risk

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

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

Credit risk associated with bank deposits is assessed by the Company as low due to placing of cash deposits only in financial institutions with high credit rating.

Further to contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. executed on 31 August 2016, credit risk is limited due to the fact that the Company does not perform any operating activity and does not have any trade receivables. As at the reporting date, there was no significant concentration of credit risk. The carrying amount of each financial asset, including financial derivatives, represents the maximum credit risk exposure.

The total credit risk exposure was as follows:

	31 Dec 2016	31 Dec 2015
Loans advanced and receivables	107 976	412 602
Cash and cash equivalents	4 677	30 983
Total	112 653	443 585

As at 31 December 2016 and 31 December 2015, the ageing structure of trade receivables was as follows:

	Gross value 31 Dec 2016	Impairment losses 31 Dec 2016
Not overdue	4 881	0
Total	4 881	0

(all amounts in PLN thousand)

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

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

	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Balance at beginning of the period	3 410	4 635
Contribution in-kind of Operational Activity	(3 466)	0
Increase/Decrease of impairment losses	56	(1 225)
Balance at end of the period	0	3 410

27.2. Interest rate risk

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

	31 Dec 2016	31 Dec 2015
Fixed-rate financial instruments		
Liabilities to related parties under debt securities	126 901	233 767
Borrowings from related parties	198 407	0
Other financial liabilities	614 418	0
	939 726	233 767
Variable-rate financial instruments		
Financial assets	103 069	10 473
Financial liabilities	0	0

Sensitivity of cash flows from variable-rate financial instruments

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

	1 Jan 2016–31 Dec 2016		1 Jan 2015–31 Dec 2015	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments and effect on profit/(loss) before tax	861	(861)	(157)	157
Effect on equity	0	0	0	0

(all amounts in PLN thousand)

Sensitivity of fair value of fixed-rate financial instruments

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

27.3. Currency risk

From 1 September 2016, which is the day after the contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o., the Company does not burden currency risk in foreign currency trade transactions, because it does not perform any operating activity. Nevertheless, the Company monitors its foreign currency positions on an ongoing basis.

During 2016 and 2015, the Company used forward, which included purchase of foreign currency at a predetermined rate. The forward contracts used to hedge the Company's business transactions consisted of the sale of EUR at a predetermined rate. This helped to secure margins on export sales and to mitigate the risk of adverse changes of the margins due to appreciation of the Polish zloty. On 31 August 2016, all open forward transactions were transferred from the Company to Pfleiderer Grajewo Sp. z o.o., and afterwards, on 29 December 2016 to Pfleiderer Polska Sp. z o.o.

On 31 December 2016, Pfleiderer Group S.A. did not have any open foreign exchange forward transactions.

The currency risk of the Company is mainly related to the euro denominated loan from subsidiary, drawn to finance the acquisition of PCF GmbH (EUR 44 848 thousand), and other finance liabilities related to obligation taken over from Atlantik SA (EUR 138 883 thousand). Detailed information is presented in Note 23.

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

31 Dec 2016:	EUR	USD
Cash and cash equivalents	367	94
Trade receivables and prepayments	60	0
Other non-current financial assets	65	0
Other receivables	15	0
Loans and borrowings	(812 825)	0
Trade and other payables	(1 082)	0
Other payables	(22 245)	0
Balance-sheet exposure, gross	(835 645)	94
Net exposure under financial instruments	(835 645)	94

31 Dec 2015:	EUR	USD	RON
Cash and cash equivalents	16 058	143	0
Trade receivables and prepayments	5 189	(60)	0
Trade and other payables	(22 527)	(23)	(18)
Balance-sheet exposure, gross	(1 280)	60	(18)
Transactions in derivative instruments:			
- hedging of expected sales transactions	(242 053)	0	0
- hedging the transaction of acquisition of shares in subsidiary	508 312	0	0
Net exposure under financial instruments	264 979	60	(18)

(all amounts in PLN thousand)

Sensitivity to currency exchange rate changes

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

31 Dec 2016:	change +5%	change -5%
EUR	(41 782)	41 782
USD	5	(5)
Effect on profit before tax	(41 777)	41 777
Effect on net profit	(33 839)	33 839
Effect on equity	0	0

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

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

Currency	Exchange rate as at 31 Dec 2016	Exchange rate as at 31 Dec 2015
EUR	4.4240	4.2615
USD	4.1793	3.9011
RON	0.9749	0.9421

27.4. Liquidity risk

As at 31 Dec 2016:

	Carrying amount	Contractual cash flows	Below 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings from related parties	198 407	199 895	199 895	0	0	0	0
Other financial liabilities	614 418	619 025	619 025	0	0	0	0
Liabilities under debt securities	126 901	127 000	127 000	0	0	0	0
Trade and other payables	7 267	7 267	7 267	0	0	0	0
	946 993	953 187	953 187	0	0	0	0

(all amounts in PLN thousand)

As at 31 Dec 2015:

	Carrying amount	Contractual cash flows	Below 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities under debt securities	233 767	234 500	234 500	0	0	0	0
Trade and other payables	135 605	135 605	135 605	0	0	0	0
	369 372	370 105	370 105	0	0	0	0

As at 31 December 2016, the Company's has no debt under bank borrowings and amounts outstanding under credit facilities. As at 31 December 2016, unused credit facilities amounted to PLN 193 353 thousand. Total amount of credit limits amounts to PLN 200 000 thousand. Credit limits are available until 30 April 2019. For details, see Note 23 to these financial statements. The Company held cash 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.

Detailed information about borrowings from subsidiaries and other financial liabilities is presented in Note 23.

27.5. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximate their carrying amounts as at 31 December 2016 and 31 December 2015.

27.6. Capital management

The key ratio used by Pfleiderer Group S.A. to monitor equity is the ratio of equity to total assets. In 2016, the ratio decreased from 73.23% to 56.24%. The decrease is related mainly to the increase of assets further to the acquisition of PCF GmbH in January 2016, partly offset by decrease of assets as a result of contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o. o. on 31 August 2016.

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

	31 Dec 2016	31 Dec 2015
Equity	1 251 318	1 074 902
Total assets	2 224 785	1 467 907
<i>Ratio:</i>		
Equity		
Total assets	56.24 %	73.23 %

The Company manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. The decrease of ratio of equity to total assets from 274% to the level of 129% is mainly attributable to the increase in debt level as a result of drawing a loan from subsidiary to finance the acquisition of PCF GmbH (EUR 43 587 thousand) and taking over the obligation from Atlantik SA (EUR 134 979 thousand). This effect was partially offset by the decrease in short-term notes, as well as decrease in trade payables and employee benefit obligations being the effect of contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016.

In 2016, the Company paid dividend in the amount of PLN 64 701 thousand.

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

(all amounts in PLN thousand)

28. OPERATING LEASE AGREEMENTS

On 31 December 2016, the Company only leased company cars under operating lease agreements. The term of all those agreements is 36 months. The last agreements will expire in January 2020.

The costs incurred by the Company under the operating lease agreements in 2016 were PLN 606 thousand (2015: PLN 3 947 thousand). Significant decrease of cost is related to termination of two lease agreements in 2015 and subsequent acquisition of those lease subjects (laminator and wood finisher).

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

	31 Dec 2016	31 Dec 2015
Up to one year	250	1,054
From 1 to 5 years	186	593
Total	436	1,647

29. CONTRACTUAL COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT AND INTAGIBLE ASSETS

As at 31 December 2016, the Company did not have any contractual commitments to acquire property, plant, equipment and intangible assets.

	31 Dec 2016	31 Dec 2015
Commitments to acquire property, plant and equipment and intangible assets	0	2 765
- <i>fixed assets</i>	0	2 756
- <i>intangible assets</i>	0	9

30. CONTINGENT LIABILITIES AND SECURITY

Guarantees granted and security liabilities:

Liabilities for Revolving Facilities Agreement are guaranteed by the PCF GmbH, Pfeiderer Service GmbH, Pfeiderer Deutschland GmbH, Pfeiderer Neumarkt GmbH, Pfeiderer Leutkirch GmbH, Pfeiderer Gütersloh GmbH, Pfeiderer Arnsberg GmbH, Pfeiderer Baruth GmbH, Jura-Spedition GmbH and Pfeiderer Vermögensverwaltung GmbH & Co . KG ("Guarantors of the West Segment ").

From 19 January 2016. Revolving Credit Agreement is also guaranteed by the Pfeiderer Group SA, Pfeiderer Prospan S.A., Pfeiderer MDF Sp. z o.o. and Pfeiderer Silekol Sp. z o.o. ("Guarantors of the Eastern Segment"). Each Guarantor irrevocably, unconditionally and jointly (subject to certain customary restrictions and agreed principles for security) guarantees to each party financing under the Revolving Credit Agreement, to pay a nominal amount, interest, costs, expenses and other amounts on the basis of or in connection with the Revolving Credit Agreement or other financial documents entered into in connection with this agreement, which has not been paid fully and irrevocably by the borrower.

According to the information given in note 23, on 8 July 2016 on the basis of the documents entered into on 4 July 2016, two new companies joined the Revolving Credit Agreement: Pfeiderer Polska Sp. z o.o. and Pfeiderer Grajewo Sp. z o.o. becoming borrowers and guarantors.

(all amounts in PLN thousand)

Liabilities under Revolving Credit Agreement are secured by the same collateral as Senior Secured Notes issued by the PCF GmbH on 7 July 2014. This means that these commitments are now secured by first ranking collateral on:

- (i) the issued share capital (respectively shares) of West Segment Guarantors;
- (ii) certain receivables of West Segment Guarantors, including intercompany receivables;
- (iii) certain real property;
- (iv) some of the items of intellectual property;
- (v) some bank accounts and
- (vi) certain fixed and current assets.

In addition, according to the amending agreement, the Revolving Credit Agreement is also protected (first ranking) by:

- (i) financial pledges and a registered pledge on the shares / shares of the Eastern Segment Guarantors (with the exception of Pfleiderer Group S.A.);
- (ii) power of attorney to exercise the corporate rights of the pledged shares / shares of the Eastern Segment Guarantors (excluding the Company);
- (iii) financial pledges and a registered pledge on receivables arising from bank account agreements of the Eastern Segment Guarantors;
- (iv) the power of attorney to block and withdrawals from bank accounts of Eastern Segment Guarantors;
- (v) registered pledge on assets (related to the whole business, including trademarks) of Eastern Segment Guarantors;
- (vi) bank transfers to security of receivables under insurance policies and relevant agreements (including intercompany loans) of Eastern Segment Guarantors;
- (vii) a statement of the mortgage of the Eastern Segment Guarantors; and
- (viii) a statement of submission to enforcement of Eastern Segment Guarantors.

On 21 October 2015,, Pfleiderer Group S.A. and its subsidiaries, i.e. Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. have concluded agreements and made activities related to the establishment of collateral. Collateral secure parallel debt claims of Commerzbank Aktiengesellschaft, Filiale Luxembourg (being the collateral agent under the creditors' agreement) in the amount equal to the sums due in each case to the parties secured by the Guarantors of the Eastern Segment (which includes the principal amount of EUR 321.7 million of bonds issued by PCF GmbH on 7 July 2014, the principal amount of up to EUR 60 000 thousand and PLN 200 000 thousand under the revolving credit agreement) plus interest, commissions and liabilities relating to hedging transactions.

The Eastern Segment Guarantors and the Security Agent entered into and signed the contracts and other documents providing for the establishment of the following collateral:

- (i) financial pledges and a registered pledge on the shares / shares of respectively, Pfleiderer Prospan SA, Pfleiderer MDF Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. belonging to the Pfleiderer Group SA (representing 100% of the share capital and entitling to 100% of voting rights at the general meeting of each company);
- (ii) power of attorney to exercise the corporate rights of the pledged shares / shares of respectively, Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. belonging to the Pfleiderer Group S.A.;
- (iii) financial pledges and a registered pledge on receivables arising from bank account agreements of Eastern Segment Guarantors;
- (iv) the power of attorney to block and withdrawals from bank accounts of Eastern Segment Guarantors;

(all amounts in PLN thousand)

- (v) registered pledge on assets (related to the whole business, including trademarks) of Eastern Segment Guarantors
- (vi) transfers to security of receivables under insurance policies and relevant agreements (including intercompany loans) of Eastern Segment Guarantors and
- (vii) a statement on the establishment of a mortgage on the following real estate:
- a. land property, located in Grajewo, Grajewo municipality, land register number LM1G / 00024415/1; land property, located in Grajewo, Grajewo municipality, land register number LM1G / 00016833/8 and land property, situated in the town Rajgród, municipality Rajgród, land register number LM1G / 00015686/5, the Company is the perpetual user;
 - b. land property, located in Kolonia Konopki and Grajewo, Grajewo municipality, land register number LM1G / 00021237/8; land property, located in Grajewo, Grajewo municipality, land register number LM1G / 00023663/7 – the perpetual usufruct is used by Pfleiderer Grajewo Sp. z o.o.
 - c. land property, located in Wieruszów, Pieczyska and Klatka, municipality of Wieruszów, land register number SR1W / 00085678/9 and land property, located in the village Klatka, municipality of Wieruszów, land register number SR1W / 00087135/5 - the perpetual usufruct is used by Pfleiderer Prospan S.A.;
 - d. plot of land, located in Klatka, municipality of Wieruszów, land register number SR1W / 00088780/8; land property, situated in Wieruszów, municipality of Wieruszów, land register number SR1W / 00083375/1, and real estate property, situated in Wieruszów, municipality of Wieruszów, land register number SR1W / 00085575/7, which is owned by Pfleiderer Prospan S.A.;
 - e. land property, located in Grajewo, Grajewo municipality, land register LM1G / 00034414/7, which is a perpetual usufruct of Pfleiderer MDF Sp. z o.o. ; and
 - f. real estate property, located in Kędzierzyn-Koźle, the municipality Kędzierzyn-Koźle, land register OP1K / 00054262/8, the perpetual usufruct is used by Pfleiderer Silekol Sp.z o.o.

Security has been established in favor of the Security Agent.

In addition, on 19 January 2016 Pfleiderer Group S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. (collectively, the "Eastern Segment Guarantors") entered into a guarantee agreement (the "Guarantee Agreement") concerning the obligations under the Senior Secured Notes at an interest rate of 7.875%, issued by the PCF GmbH on 7 July 2014, with a maturity to 2019 in the total amount of EUR 321 684 thousand (the "Bonds"). Guarantee Agreement was concluded between the guarantors of the Eastern Segment, Commerzbank Aktiengesellschaft, Filiale Luxemburg ("Collateral Agent") and the representative of holders of the Notes.

Previously, bonds were secured by, among others, as superior debt by certain subsidiaries of the PCF GmbH ("West Segment Guarantors"). Under the Agreement, the Guarantee bonds will be additionally secured by a guarantee granted by the Guarantors of the Eastern Segment.

On 8 July 2016, Pfleiderer Polska Sp. z o.o. and Pfleiderer Grajewo Sp. z o.o. also entered into the Guarantee Agreement as agents guaranteeing the redemption of the Bonds as part of the Eastern Segment Guarantees.

Under the Guarantee Agreement, the Guarantors (subject to certain limitations) jointly guarantee unconditionally and irrevocably to the Security Agent, acting on behalf of the holders of the Bonds on the primacy basis, due and timely repayment of principal, interest, costs, expenses and other amounts payable by the PCF GmbH under or in connection with the Notes.

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016



(all amounts in PLN thousand)

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

Debtor	Creditor	Origination date	Amount of liability		Expiry date
			maximum	in foreign currency	
Sureties in EUR:					
Pfleiderer MDF Sp. z. o.o.	PKO BP S.A.	24 Apr 2009	1 115	1 115	15 Jul 2019
Pfleiderer Prospan S.A.	Robert Burkle GmbH	23 Jul 2015	1 668	-	25 Jul 2016
Total:			2 783	1 115	4 752

Sureties in PLN:					
Pfleiderer Prospan S.A., Pfleiderer					
Silekol Sp. z o.o.	BZ WBK S.A.	26 Jun 2013	15 000	-	25 Jun 2016
Pfleiderer Prospan S.A.	Alior Bank S.A	26 Jun 2013	11 500	-	25 Jun 2016
Pfleiderer Silekol Sp. z o.o.	Alior Bank S.A	26 Jun 2013	11 500	-	25 Jun 2016
Pfleiderer Prospan S.A.	Millennium S.A.	26 Jun 2013	11 500	-	25 Jul 2016
Pfleiderer Silekol Sp. z o.o.	Millennium S.A.	26 Jun 2013	11 500	-	25 Jul 2016
Total:			61 000	-	-

Sureties presented in the table above included:

- Surety of EUR 1 115 thousand (PLN 4 752 thousand) issued to Pfleiderer MDF Sp. z o.o. in connection with a credit facility given to Pfleiderer MDF Sp. z o.o. by PKO BP S.A. As at 31 December 2015, Pfleiderer MDF Sp. z o.o.'s liability under the facility was PLN 62 626 thousand. On 11 February 2016, Pfleiderer MDF Sp. z o.o. made a final repayment of two bank credits in PKO Bank Polska SA, which were concluded based on agreements signed on 15 January 2007 and 29 August 2007.
- Letter of credit of EUR 1 668 thousand (PLN 7 108 thousand) issued to Pfleiderer Prospan S.A. in connection with a contract for the construction of the kitchen worktop laminating line. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability towards Robert Burkle GmbH was PLN 0 thousand. The letter of credit expires on 25 July 2016.
- Surety of PLN 15 000 thousand granted to Pfleiderer Prospan S.A. and Pfleiderer Silekol Sp. z o.o. in connection with a credit facility given to Pfleiderer Grajewo S.A. and its subsidiaries, Pfleiderer Prospan S.A. and Pfleiderer Silekol Sp. z o.o., by BZ WBK S.A. As at 31 December 2015, the amount of the companies' liability outstanding under the facility was PLN 0.
- Surety of PLN 11 500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility given to Pfleiderer Prospan S.A. by Alior Bank S.A. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0.
- Surety of PLN 11 500 thousand issued to Pfleiderer Silekol Sp. z o.o. in connection with a credit facility given to Pfleiderer Silekol Sp. z o.o. by Alior Bank S.A. As at 31 December 2015, Pfleiderer Silekol Sp. z o.o.'s liability under the facility was PLN 0.
- Surety of PLN 11 500 thousand issued to Pfleiderer Prospan S.A. in connection with a credit facility given to Pfleiderer Prospan S.A. by Millennium Bank S.A. As at 31 December 2015, Pfleiderer Prospan S.A.'s liability under the facility was PLN 0.
- Surety of PLN 11 500 thousand issued to Pfleiderer Silekol Sp. z o.o. in connection with a credit facility extended to Pfleiderer Silekol Sp. z o.o. by Millennium S.A. As at 31 December 2015, Pfleiderer Silekol Sp. z o.o.'s liability

(all amounts in PLN thousand)

under the facility was PLN 0.

On 11 February 2016, Pfleiderer Group SA, Pfleiderer Prospan S.A. and Pfleiderer Silekol Sp. z o.o. made a final repayment off all bank credits concluded based on agreement signed on 26 June 2013 with Bank Millennium S.A., Alior Bank S.A. and Bank Zachodni WBK S.A.

Contingent liabilities

As of 31 December 2016, the Company did not identify any significant contingent liabilities except for a potential liability resulting from the antitrust proceedings described below.

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

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

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)



31. MATERIAL RELATED-PARTY TRANSACTIONS

In the 2016 and 2015 financial year, the Company executed the following commercial transactions with related parties:

Related party	1 Jan - 31 Dec 2016							
	Sales of goods (finished or unfinished)	Financial income	Other operating income	Dividend income	Purchase of goods (finished and unfinished)	Acquisition of property and other assets	Financial costs	Capitalized costs
Pfleiderer MDF Sp. z o.o.	54 283	4 095	1 128	-	33 583	204	-	-
Pfleiderer Prospan S.A.	14 584	-	3 931	189 603	3 207	907	4 503	-
Pfleiderer Silekol Sp. z o.o.	1 020	-	370	27 354	33 964	7	-	-
Jura Polska Sp. z o.o.	706	-	99	-	15 058	83	-	-
Pfleiderer Grajewo Sp. z o.o.	-	-	871	-	204	-	-	-
Pfleiderer Service GmbH	-	-	319	-	-	-	8 680	95
PCF GmbH	-	-	5 187	-	1 686	-	-	5 714
Pfleiderer Leutkirch GmbH	-	-	-	-	-	454	-	-
Jura Spedition GmbH	-	-	-	-	3	42	-	-
Heller Holz GmbH	-	-	-	-	-	28	-	-
Pfleiderer Arnsberg GmbH	-	-	-	-	-	498	-	-
Pfleiderer Baruth GmbH	-	-	-	-	-	44	-	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	836	-	272	-	478	5 534	14 058	-
Pfleiderer Neumarkt GmbH	2 864	-	-	-	-	484	-	-
Pfleiderer Gütersloh GmbH	-	-	-	-	625	389	-	-
Total	74 293	4 095	12 177	216 957	88 808	8 674	27 241	5 809

Notes are an integral part of these annual separate financial statements

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016



(all amounts in PLN thousand)

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

Notes are an integral part of these annual separate financial statements

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)



Related-party transactions as at 31 December 2016 and 31 December 2015:

a) financial, trade and other receivables:

Related party	31 Dec 2016		31 Dec 2015	
	Balance of loans advanced	Balance of trade receivables	Balance of loans advanced	Balance of trade receivables
Pfleiderer MDF Sp. z o.o.	103 069	176	10 473	27 082
Pfleiderer Prospan S.A.	-	2 708	-	491
Pfleiderer Polska Sp. z o.o.	-	162	-	-
Pfleiderer Silekol Sp. z o.o.	-	1 312	-	116
Jura Polska Sp. z o.o.	-	4	-	134
Pfleiderer Grajewo Sp. z o.o.	-	248	-	-
PCF GmbH	-	206	-	-
Pfleiderer Neumarkt GmbH	-	-	-	549
Pfleiderer Gütersloh GmbH	-	-	-	160
Pfleiderer Holzwerkstoffe GmbH & Co. KG	-	65	-	158
Total	103 069	4 881	10 473	28 690

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)



b) financial liabilities, trade and other payables:

Related party	31 Dec 2016			31 Dec 2015		
	Balance of liabilities under debt securities	Balance of investment commitments	Balance of trade liabilities	Balance of liabilities under debt securities	Balance of investment commitments	Balance of trade liabilities
Pfleiderer MDF Sp. z o.o.	-	-	2 720	-	-	6 592
Pfleiderer Prospan S.A.	126 901	-	658	233 767	-	-
Pfleiderer Polska Sp. z o.o.	-	-	201	-	-	-
Pfleiderer Silekol Sp. z o.o.	-	-	323	-	52	13 414
Jura Polska Sp. z o.o.	-	-	(18)	-	3	3 549
Pfleiderer Grajewo Sp. z o.o.	-	-	292	-	-	-
PCF GmbH	812 825	-	898	-	19	1 451
Pfleiderer Neumarkt GmbH	-	-	-	-	86	-
Pfleiderer Gütersloh GmbH	-	-	-	-	105	61
Pfleiderer Leutkirch GmbH	-	-	-	-	57	-
Pfleiderer Baruth GmbH	-	-	-	-	29	-
Pfleiderer Arnsberg GmbH	-	-	-	-	104	-
Jura Speditions GmbH	-	-	-	-	9	2
Heller Holz GmbH	-	-	-	-	9	-
Pfleiderer Holzwerkstoffe GmbH & Co. KG	-	-	-	-	1 617	55
Total	939 726	-	5 074	233 767	2 090	25 124

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

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

Remuneration of members of the Management and Supervisory Boards

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

Name	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Michael Wolff	1 166	845
Wojciech Gątkiewicz	1 143	1 061
Dirk Hardow	119	0
Rafał Karcz	1 258	570
Richard Mayer	987	0
Gerd Schubert	220	549
Dariusz Tomaszewski	55	595
Total	4 948	3 620

As at 31 December 2016, members of the Management Board 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

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

Name	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Zbigniew Prokopowicz	843	0
Michael F. Keppel	384	96
Jason R. Clarke	0	0
Stefan Wegener	379	0
Jan Woźniak	254	105
Krzysztof Sędzikowski	274	0
Tod Kersten	87	0
Paolo G. Antonietti	213	192
Christoph Mikulski	106	59
Richard Mayer	9	105
Jochen Schapka	9	105
Gerd Hammerschmidt	9	59
Total	2 567	721

As at 31 December 2016, Mr. Paolo G. Antonietti, a former member of the Pfleiderer Group S.A.'s Supervisory Board, held 4,000 shares of the Company.

Other members of the Pfleiderer Group S.A.'s Supervisory Board did not hold any shares in the Company at the end of 2016.

As at 31 December 2016, the members of the Management and Supervisory Boards of Pfleiderer Group S.A. had no outstanding debt under loans from the Company.

32. ADDITIONAL INFORMATION TO THE SEPARATE STATEMENT OF CASH FLOWS

Structure of cash and cash equivalents

	31 Dec 2016	31 Dec 2015
Cash in hand and at banks	4 677	30 983
Cash disclosed in the statement of cash flows	4 677	30 983

Change in liabilities:

	31 Dec 2016	31 Dec 2015
Change in trade and other payables	(106 831)	51 836
Change in investment liabilities	9 411	4 802
Liabilities from the transactional costs associated with the issuance of shares	23 619	(24 458)
Liabilities from arranging of new financing	(1 916)	(1 518)
Change in liabilities presented as disposal of a subsidiary	-	1 920
Liabilities from acquisition of subsidiary	643	(633)
German Property Tax	(22 245)	-
Change in liabilities under settlement of securities	(981)	-
Income tax liability to other companies constituting tax group	(529)	-
Transfer of liabilities of Operational Activity to Pfeleiderer Grajewo Sp. z o.o.	76 228	-
	(22 601)	31 949

33. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Commercial papers issuance

On 17 January 2017 Pfeleiderer Group S.A. redeemed debt securities of PLN 55 000 thousand and PLN 72 000 thousand from Pfeleiderer Prospan S.A..

On 17 January 2017 Pfeleiderer Prospan S.A. acquired from Pfeleiderer Group S.A. debt securities of PLN 128 828 thousand, par value: PLN 129 000 thousand, redemption date: 15 February 2017.

On 15 February 2017 Pfeleiderer Prospan S.A. acquired from Pfeleiderer Group S.A. debt securities of PLN 128 834 thousand, par value: PLN 129 000 thousand, redemption date: 15 March 2017.

On 15 March 2017 Pfeleiderer Prospan S.A. acquired from Pfeleiderer Group S.A. debt securities of PLN 130 783 thousand, par value: PLN 131 000 thousand, redemption date: 15 April 2017.

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 Pfeleiderer Prospan S.A.

Other events

Subsequently to the end of reporting period, there were changes in shareholders of Pfeleiderer Group S.A., which were presented in Note 21.1.

Additionally, on 2 March 2017, Mr. Michael Wolff resigned from the position of President of the Management Board (effectively from 1 June 2017). Simultaneously, the Supervisory Board appointed to the position of President of the Management Board (Chief Executive Officer) Mr. Thomas Schaebinger, effectively from 1 June 2017 (included).

PFLEIDERER GROUP S.A.

Notes to the annual separate financial statements
for the financial year ended 31 December 2016

(all amounts in PLN thousand)



In February 2017, the Company announced its plans to refinance the existing debt resulting from senior collateralized bonds with par value of EUR 321 684 000 and 7.875% interest rate issued by PCF GmbH (formerly Pfleiderer GmbH) on 7 July 2014 and debt from revolving bank loans with limits up to EUR 60 million and PLN 200 million. On 13 April the refinancing agreement has been signed.

Michael Wolff

President of the Management Board

Richard Mayer

*Member of the Management Board, Chief
Financial Officer*

Rafał Karcz

*Member of the Management Board, Chief
Administration Officer*

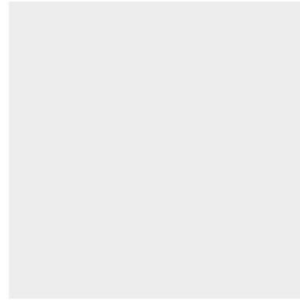
Wojciech Gątkiewicz

*Member of the Management Board, Chief
Sales Officer*

Dirk Hardow

*Member of the Management Board, Chief
Operating Officer*

Wrocław, 25 April 2017



INSPIRATIONS
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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

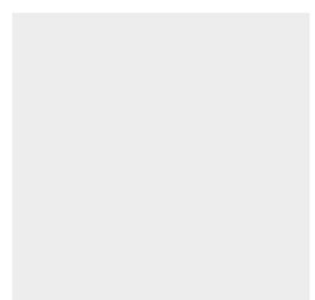
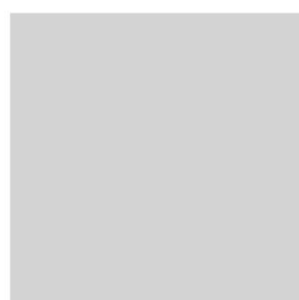


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LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD



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 million¹ 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 million² 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 Wrocław. 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 EBITDA 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.

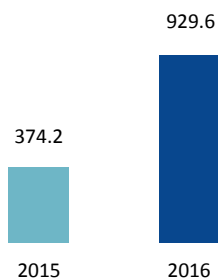
PFLEIDERER GROUP IN 2016 AT A GLANCE

Good set of financial results supported by favorable market conditions

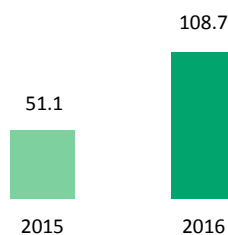


The financial information of the FY 2016 represents consolidated data of the Pfleiderer Group S.A. Group.
The financial information of the FY 2015 represents consolidated data of the Pfleiderer Grajewo S.A. Group.
*2015 adjusted EBITDA including the EBITDA of the West Core segment.

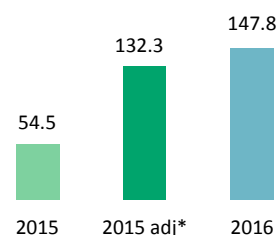
REVENUES (EUR M)



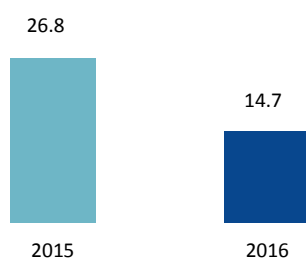
REPORTED EBITDA (EUR M)



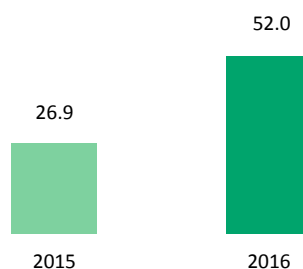
ADJ. EBITDA (EUR M)



NET PROFIT (EUR M)



CAPEX (EUR M)



KEY EVENTS AND ACHIEVEMENTS OF THE PFLEIDERER GROUP IN 2016

Q1, 2016

PFLEIDERER GRAJEWÓ 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.

DECISION REGARDING COMMENCEMENT TO THE PROCESS OF INTERNAL REORGANIZATION OF THE CAPITAL GROUP OF PFLEIDERER GRAJEWÓ 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

Q2, 2016

REGISTRATION OF SERIES E SHARES OF PFLEIDERER GRAJEWÓ 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 GRAJEWÓ 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.

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

Q3, 2016

dividend payment for the Company's shareholders in the amount of PLN 64,701,007 representing PLN 1.00 per each Company's share. All of the Company's shares were covered by the dividend, i.e. 64,701,007 shares. The

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

remaining part of the profit 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.

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.

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.

CHANGES IN SHAREHOLDER STRUCTURE

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

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.

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

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

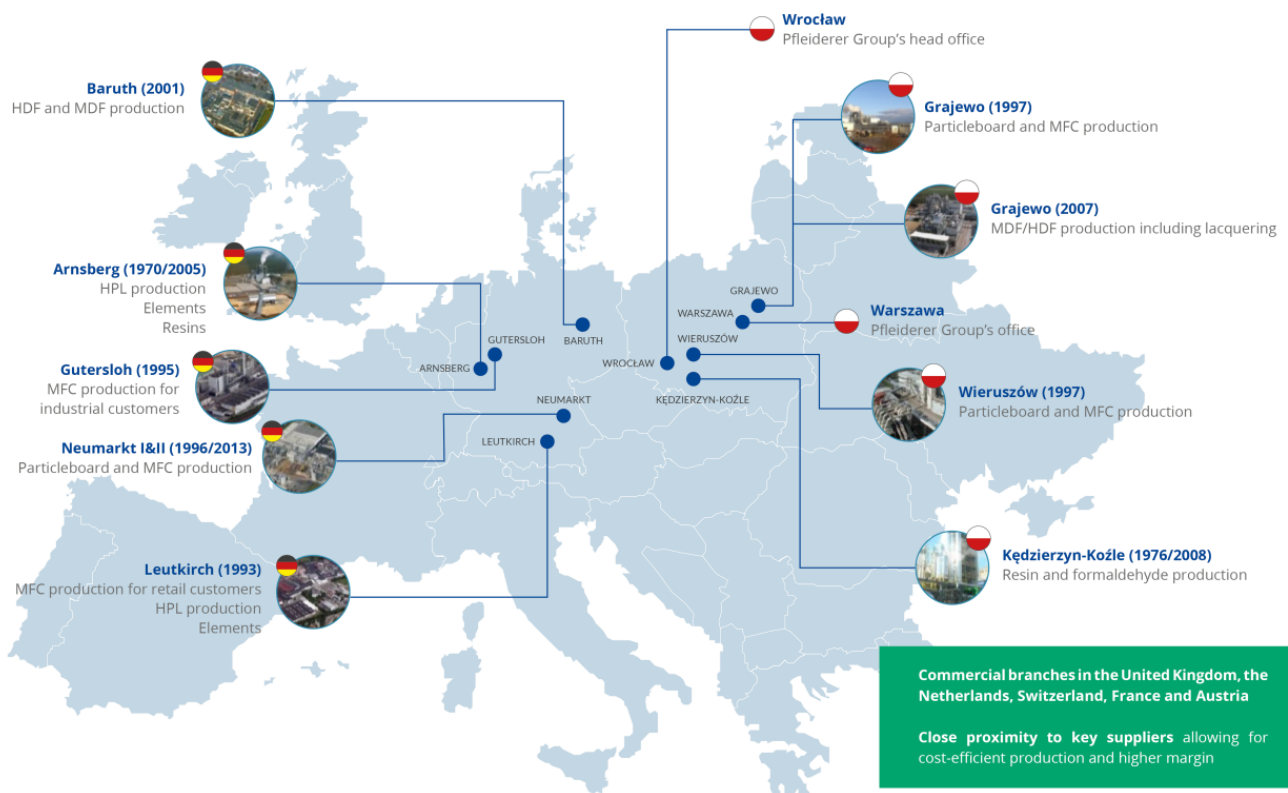
1.1. BUSINESS PROFILE – ACTIVITIES OF THE GROUP

The Pfeleiderer 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. Pfeleiderer 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, Pfeleiderer sees it as a matter of course to conserve energy and raw materials, reduce emissions and produce environmentally friendly products.

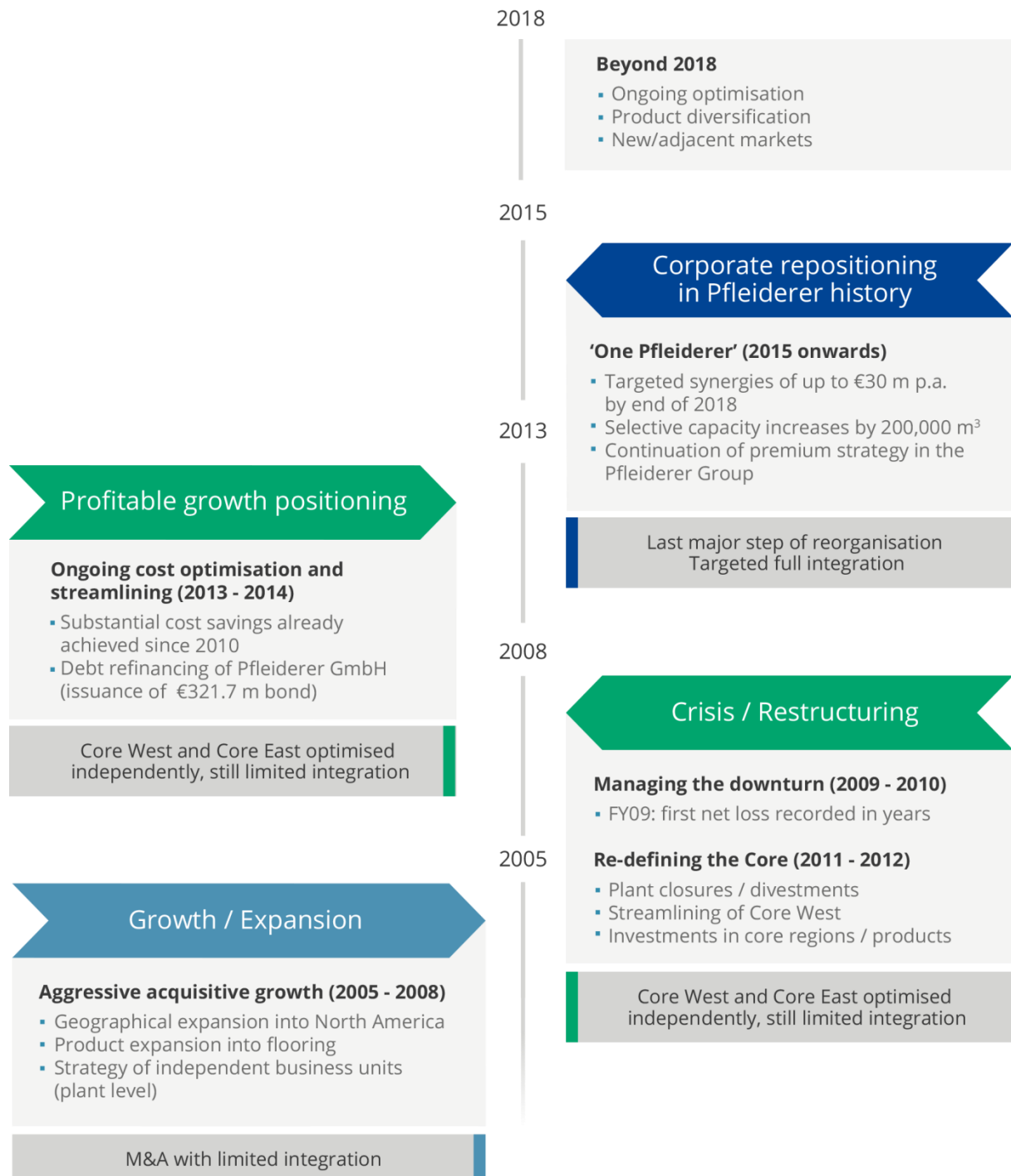
The Pfeleiderer Group consists of production plants of various profiles of the activity.

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						
% OF SALES (2016)		65%		25%		10%
MANAGEMENT'S VIEW OF PROFITABILITY		HIGHER AND MORE STABLE	EVEN HIGHER AND MORE STABLE	LOWER	EVEN LOWER	
MAIN APPLICATIONS	FURNITURE & INTERIORS	✓	✓	✓	✓	
	CONSTRUCTION	✓	✓	✓	✓	
	SHOP FITTING	✓	✓	✗	✗	
	LAMINATE FLOORING	✗	✗	✗	✗	

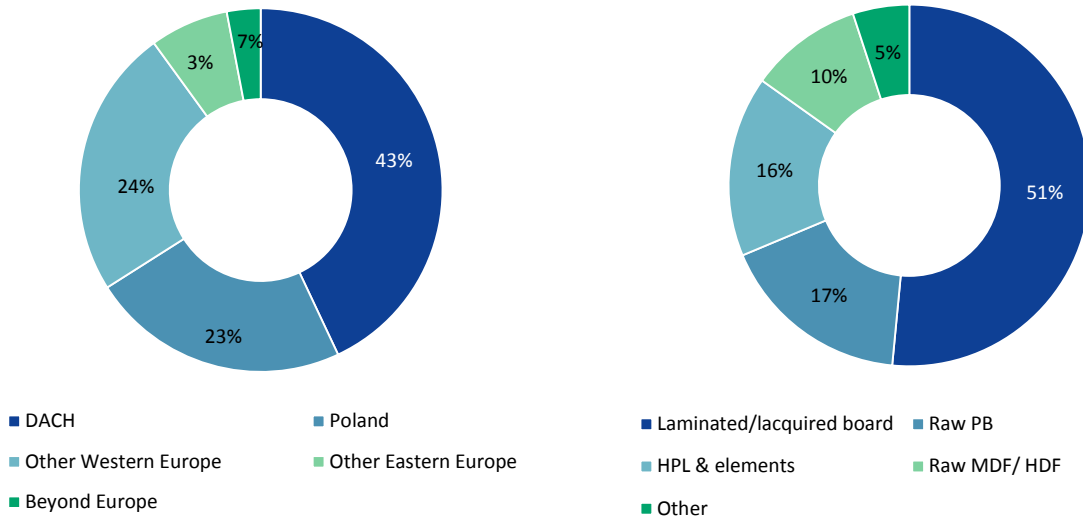
¹Electricity generated as by-product of cogeneration plants and sold through the market

²Basic products relate to commodity products (i.e. raw particleboard, medium-density fiberboard and high-density fiberboard)

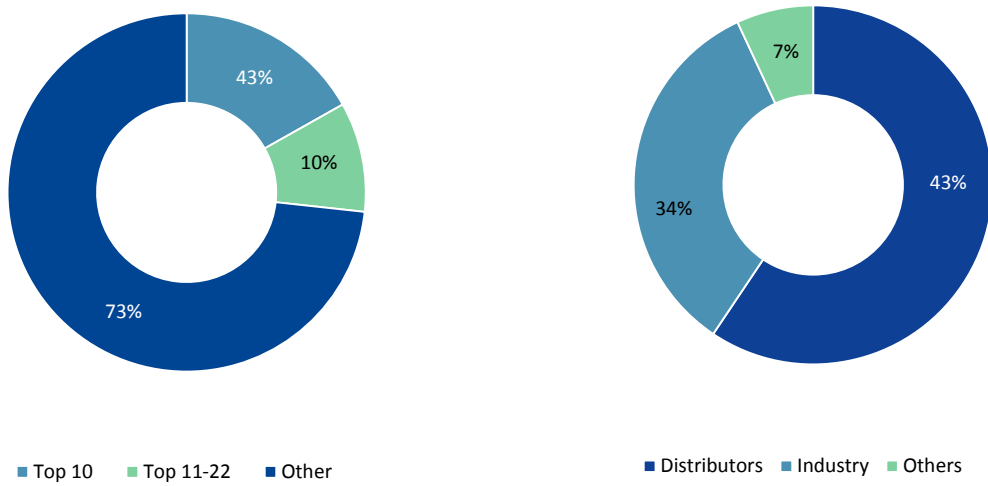
Source: Pfleiderer, Association of German Timber Industries (VHI)

FIGURE 4: REVENUE AND CUSTOMER SPLIT

REVENUE SPLIT 2016



CUSTOMER SPLIT 2016



1.2. STRUCTURE OF THE GROUP

The Pfeleiderer Group consists of one-platform enterprises. The Group's parent Company i.e. Pfeleiderer Group S.A. ("the Parent", previously Pfeleiderer 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

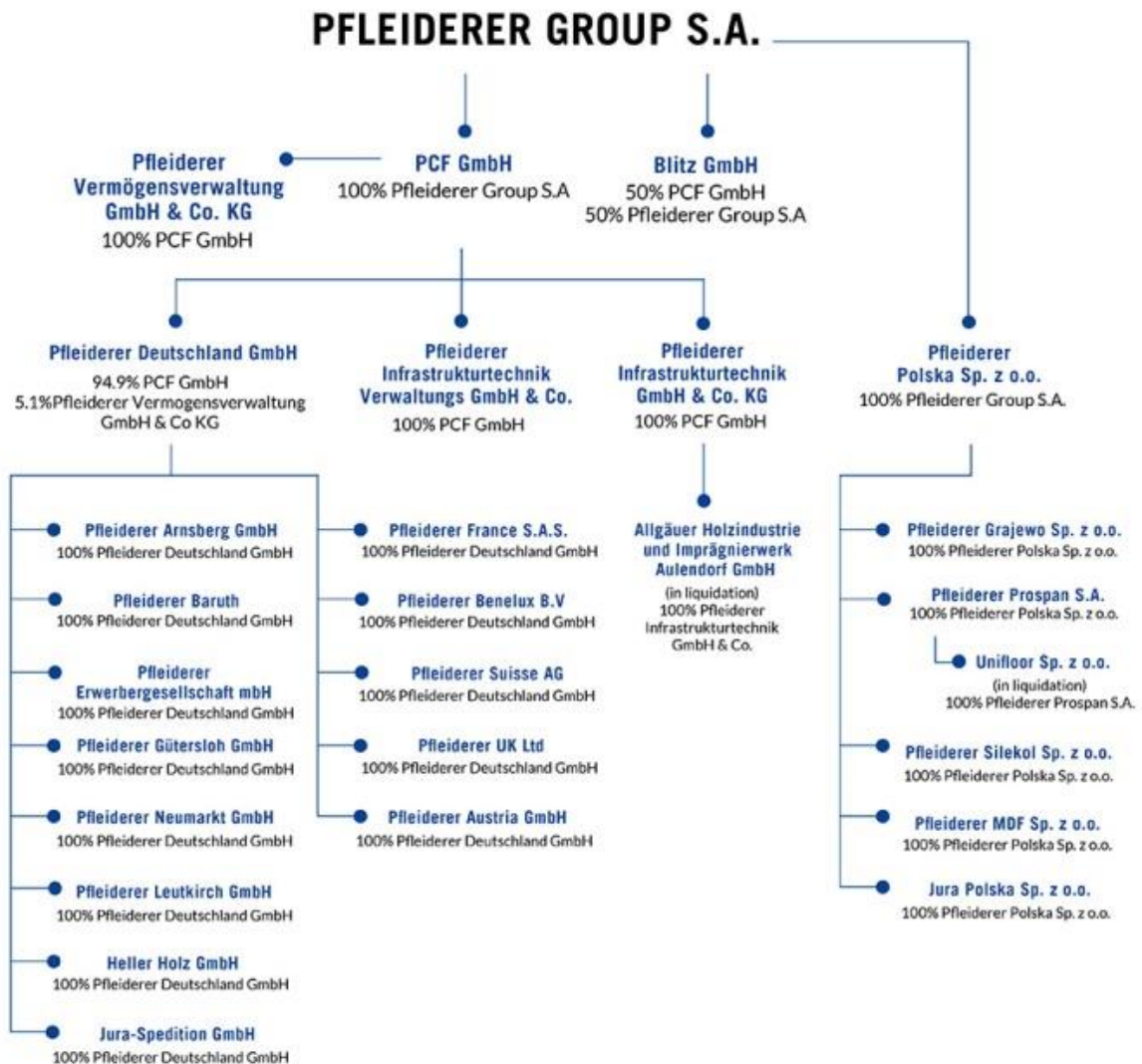


TABLE 1: SUBSIDIARIES OF THE PFLEIDERER GROUP

Eastern Europe		Dec. 31, 2016	Dec. 31, 2015
Jura Polska Sp. z o.o.	Grajewo	100.00%	100.00%
Pfeleiderer Grajewo Sp. z o.o.	Grajewo	100.00%	0.00%
Pfeleiderer MDF Sp. z o.o.	Grajewo	100.00%	100.00%
Pfeleiderer Prospan S.A.	Wieruszów	100.00%	100.00%
Pfeleiderer 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 Deutschland 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.	Macclesfields, 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 Birkenpfehlheide 3, 15837 Baruth/Mark, Germany

Principal business activity:

- manufacture of HDF/MDF.

Heller Holz GmbH, Neumarkt, Germany:

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

Tax Identification Number: 201 / 116 / 20963

Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

- purchasing and distribution of recycled wood and other wood.

JURA-Spedition GmbH, Neumarkt, Germany:

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

Tax Identification Number: 201 / 116 / 20890

Registered address: Ingolstädter Straße 51, 92318 Neumarkt, Germany

Principal business activity:

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

Pfleiderer Erwerbengesellschaft 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.

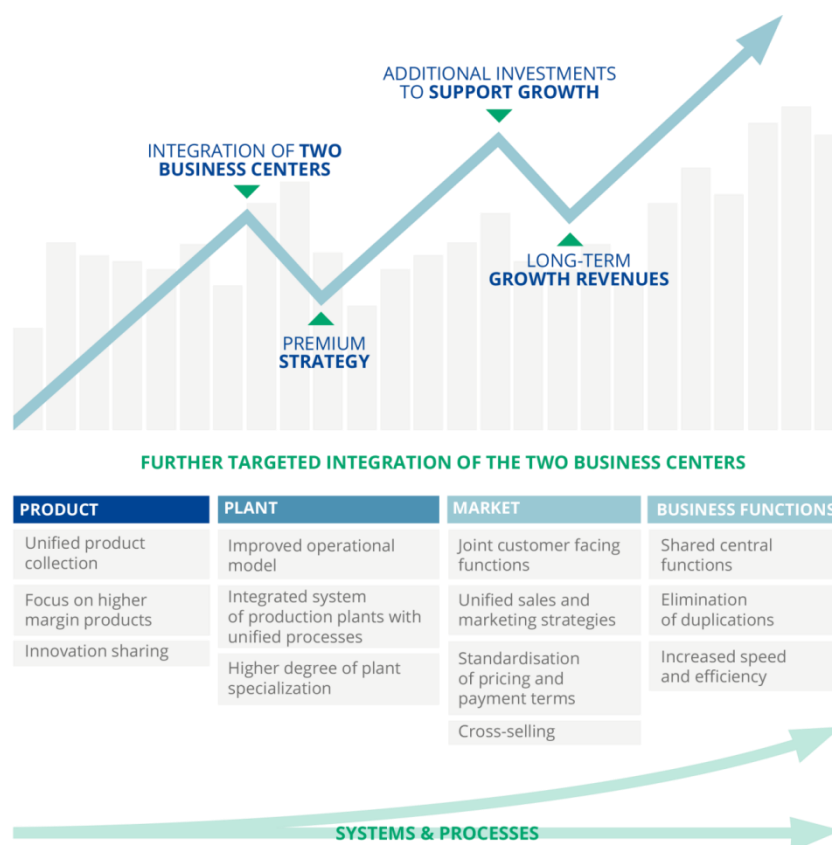
On 29 December 2016 there was achieved the target three layer structure of entire Pfleiderer Group with Pfleiderer Group S.A., as the holding company with the shares listed on Warsaw Stock Exchange, with Pfleiderer Deutschland GmbH and Pfleiderer Polska Sp. z o.o. as the sales companies and with production 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) <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 these 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 achieve 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 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

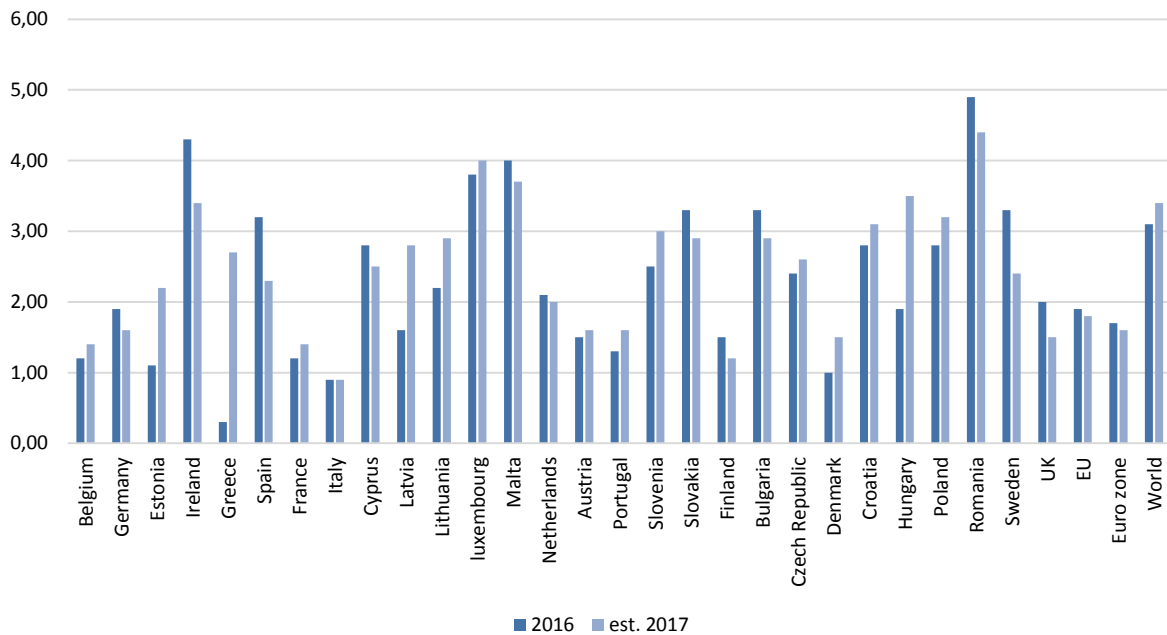
Macroeconomic situation in 2016

According to the European Commission's latest forecasts³, 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.

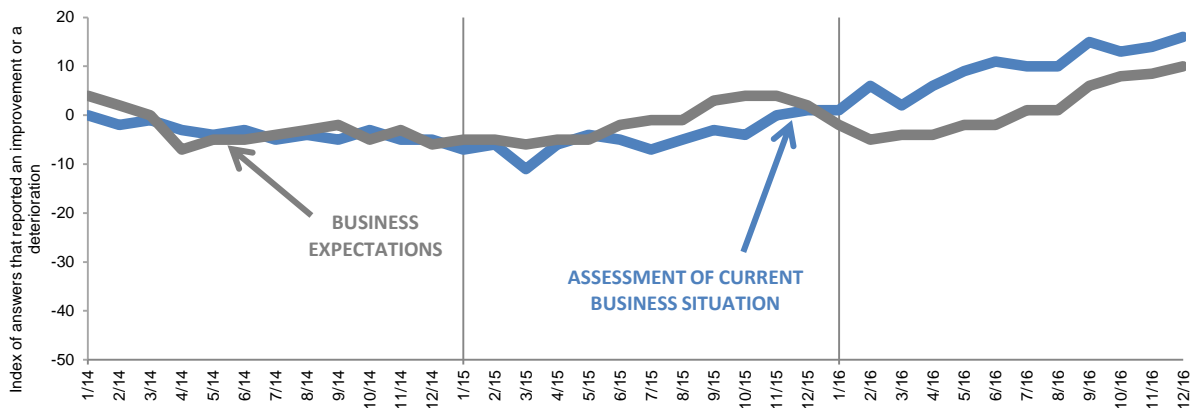
Economic growth in Poland in 2016 slowed down versus the previous year and amounted to about 2.7%, with the final quarter of the year being probably the weakest. The slowdown was primarily due to a reduction in investments, which were undermined by low absorption of EU funds in the interim period. Public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

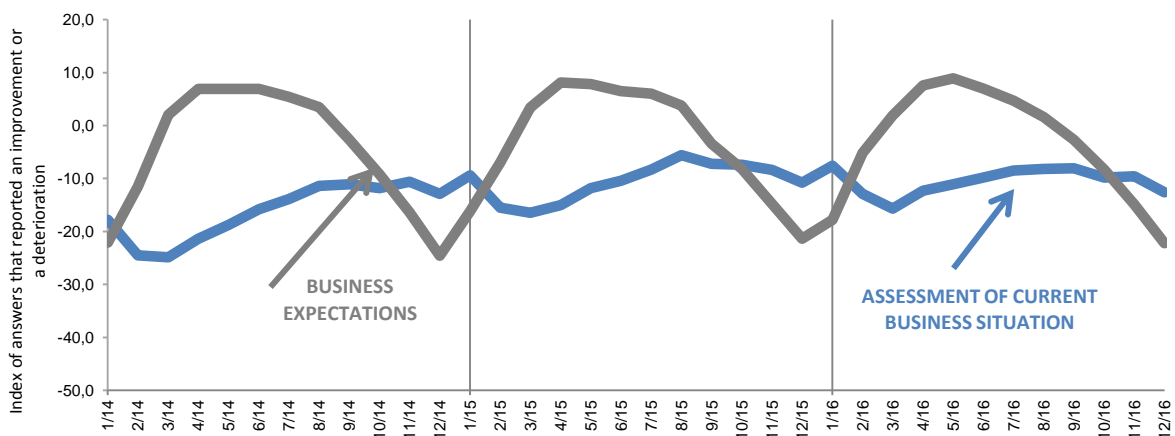
FIGURE 8: BUSINESS CLIMATE IN CONSTRUCTION - GERMANY



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



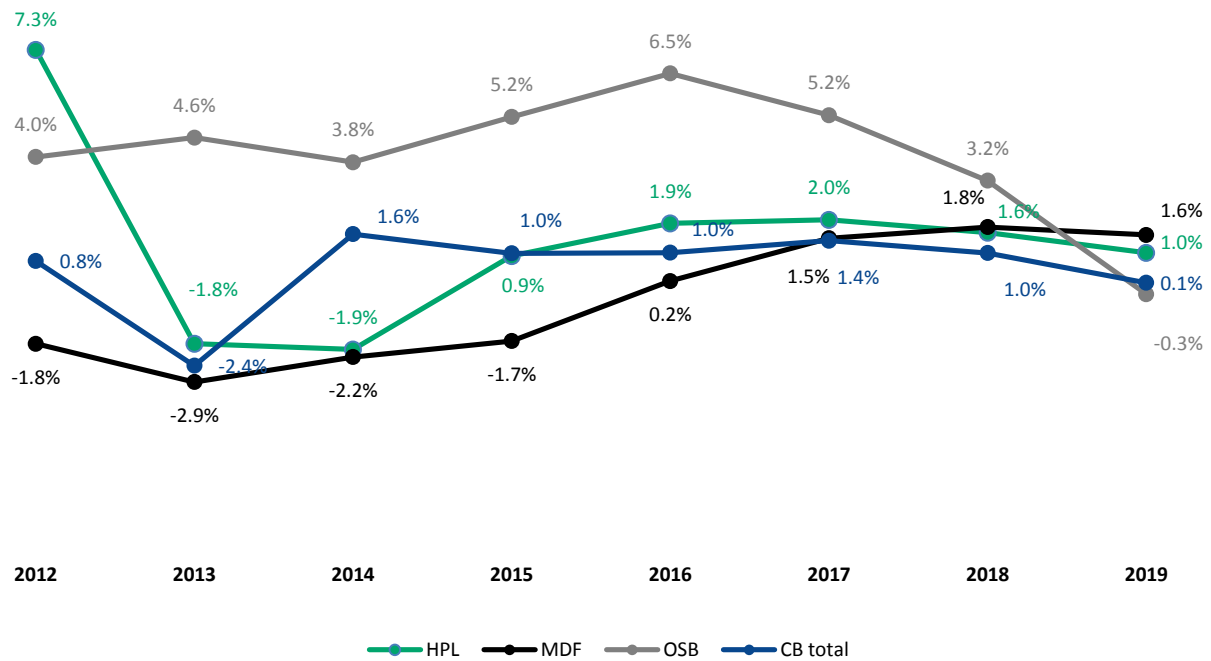
Source: GUS

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.

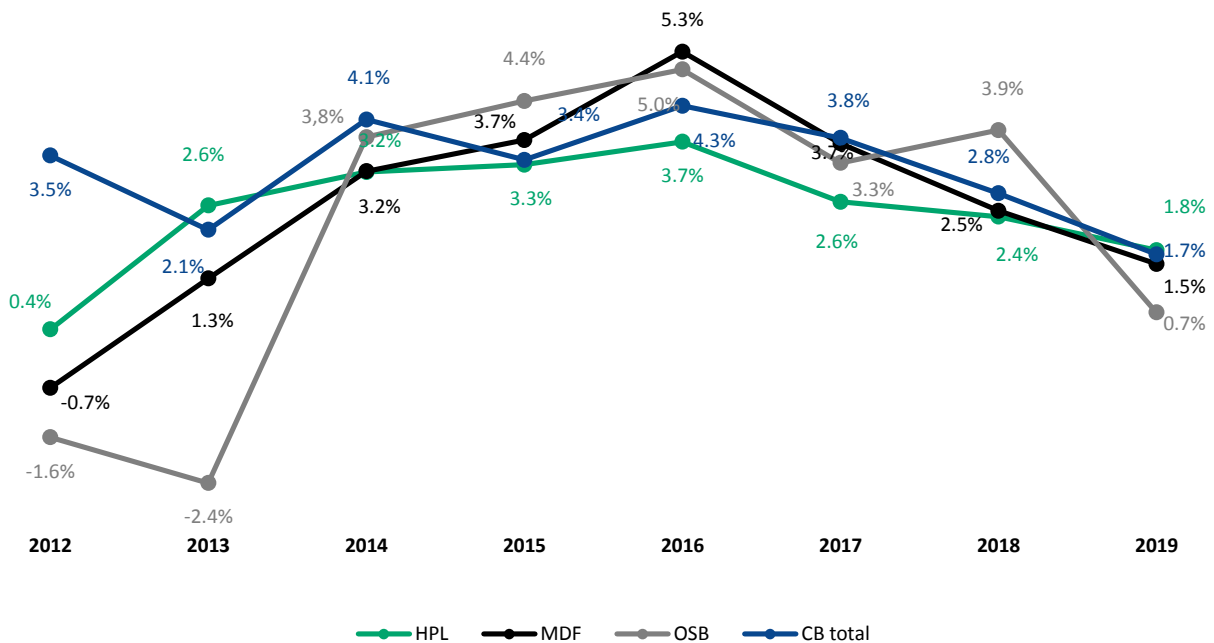
In case of DACH countries OSB market characterizes the highest growth dynamic. Moderate positive change is expected at HPL and MDF/HDF market. In Poland there's expectation that all product market will have comparable growth dynamic.

FIGURE 10: MARKET SIZE DYNAMIC (VOLUME) - DACH



Source: B&L

FIGURE 11: MARKET SIZE DYNAMIC (VOLUME) - POLAND

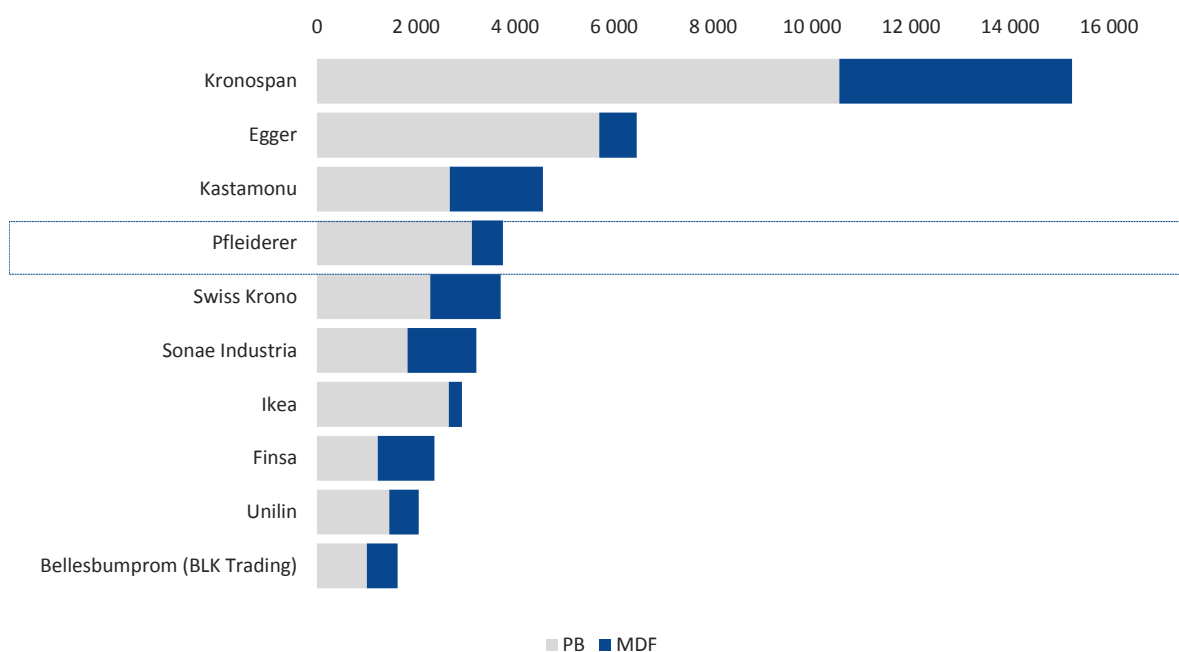


Source: B&L

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 m³ of MFP and around 15 million m³ of MDF. On that market Pfeleiderer is one of the TOP 5 player.

FIGURE 12: PRODUCTION CAPACITY IN EUROPE – TOP 10 PLAYERS X1000 M³



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%

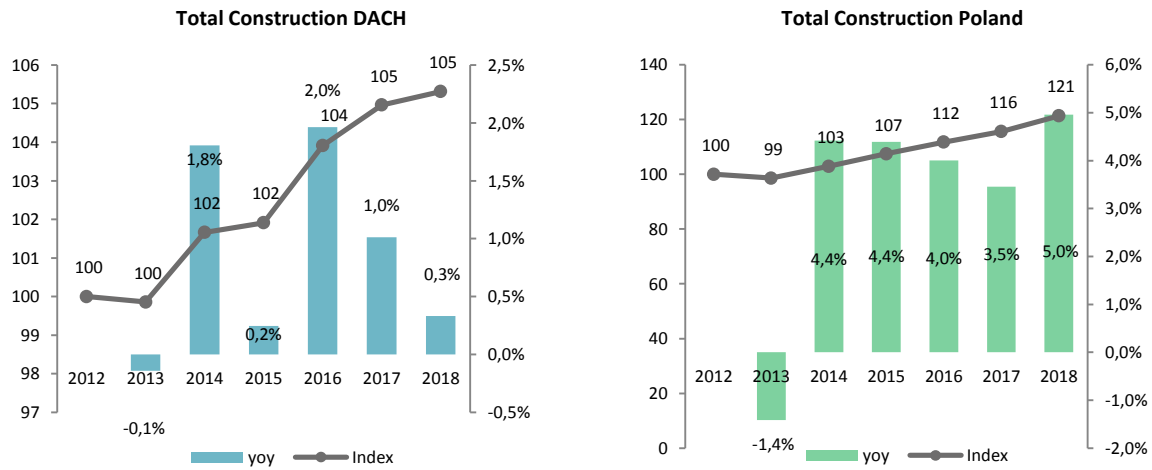
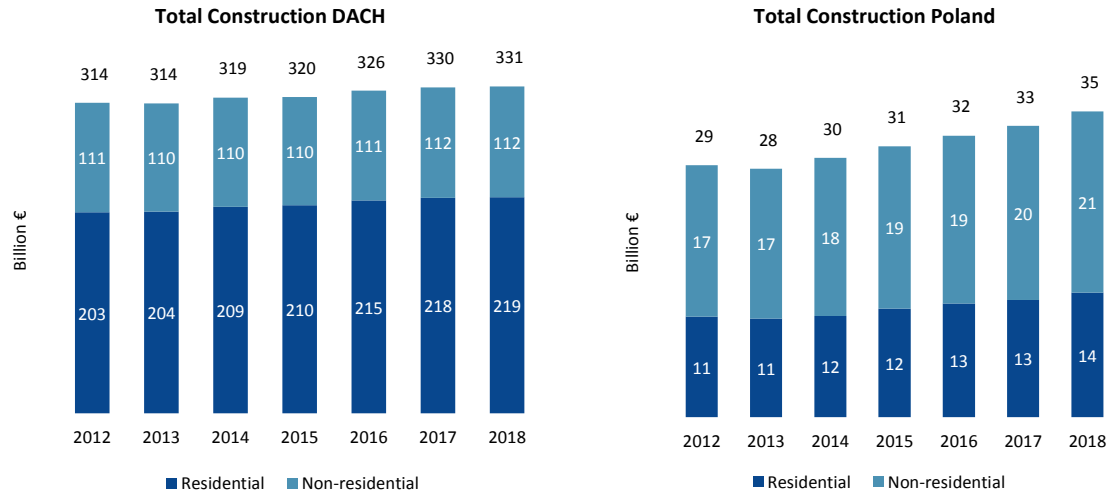
Netherlands	4.9%	6.2%	3.1%
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Source: Euroconstruct

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.

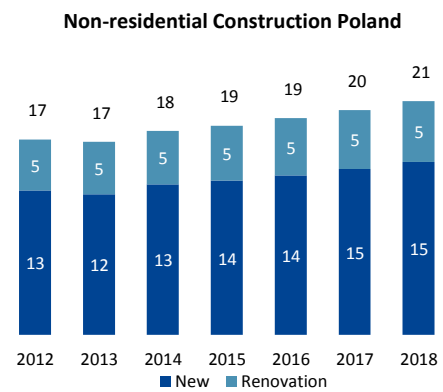
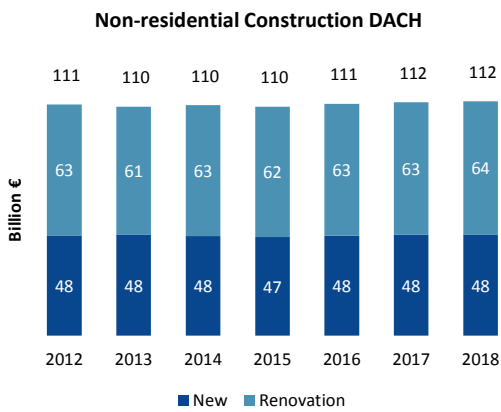
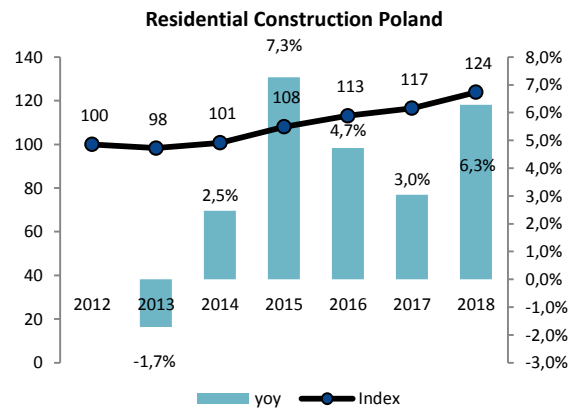
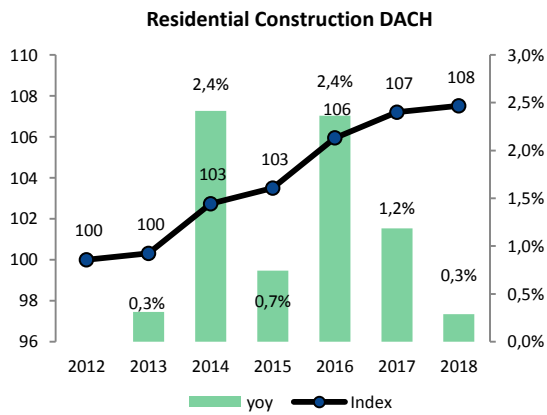
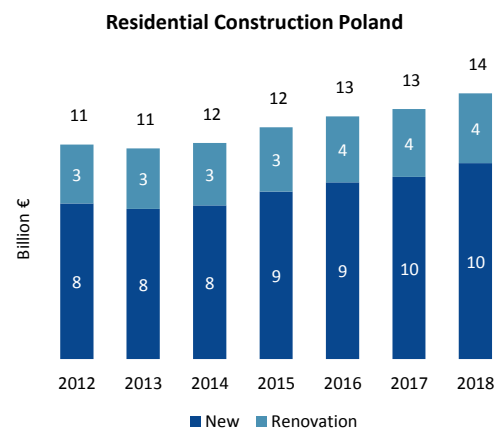
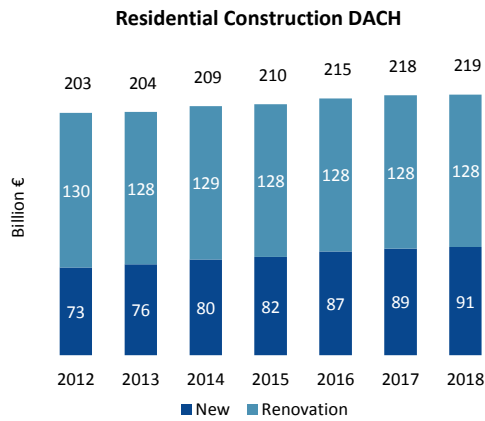
FIGURE 13: TOTAL CONSTRUCTION



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 Pfeleiderer 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.

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1.9. WORKFORCE AT THE PFLEIDERER GROUP

Human Resources Management

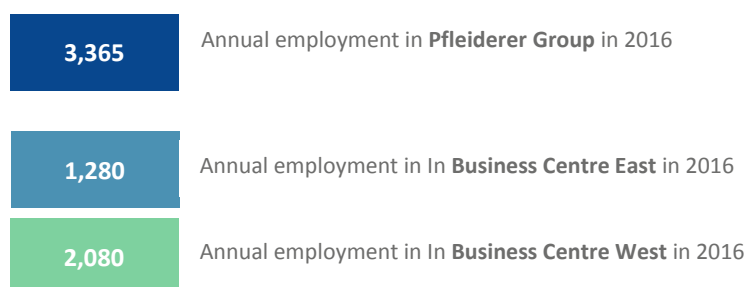
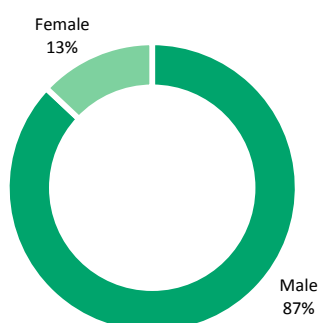


TABLE 6: WORKFORCE IN THE PFLEIDERER GROUP (AVERAGE HEADCOUNT)

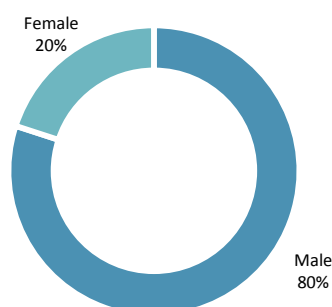
	2016	2015
Management	7	5
Direct production employees	1,502	1,438
Indirect production employees	779	691
Administration, office and other employees	977	886
Total	3,258	3,015

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 position. 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



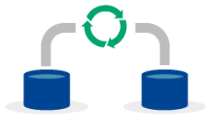
In 2016 the most important environmental activities have been related to 2 new environmental legislation processes:

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.

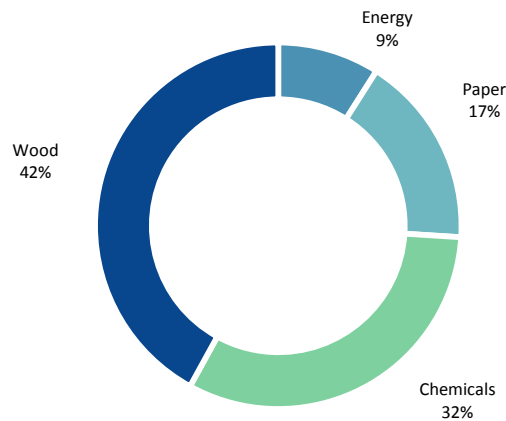
Purchasing Department in 2016 was responsible for cooperation with suppliers in many projects, one of the most important is FAFIO (Focus Areas For Improvement in Operations), which assumes savings in following years. On-going target is also to further enlarge advantages of Global Sourcing markets and 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), where 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 CO₂, 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 CO₂ 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 CO₂ 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 CO₂ 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:

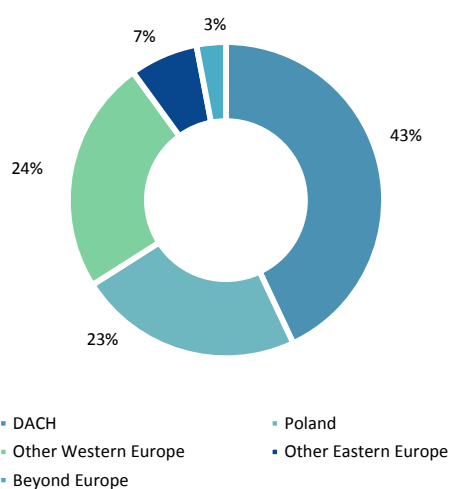
TABLE 10: REVENUE BY PRODUCT GROUP AT THE GROUP LEVEL DATA FOR 2015 RELATE TO GRAJEWO GROUP

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	-
Merchandise, materials and services	4,219	12,731
Other (sales deductions)	-23,420	0
Others incl. sales deductions	12,402	12,731
TOTAL	929,588	374,160

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

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

SALES BY REGION



SALES BY CHANNEL

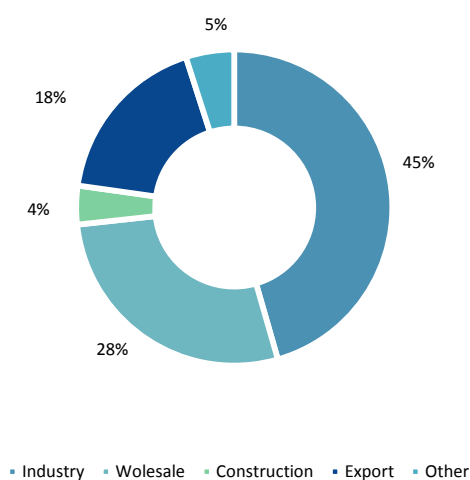


TABLE 12: REVENUE BY REGION AT THE PFLEIDERER GROUP S.A. LEVEL (STAND ALONE)

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

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

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

<i>Finish foil (foil, edge banding, edge foil)</i>	38,352	9.70%	45,337	6.99%
<i>Other (fibre mats, packaging)</i>	26,618	6.73%	61,712	9.51%
Revenue from sale of merchandise and materials	43,248	10.94%	112,513	17.34%
<i>Materials</i>	43,014	10.88%	97,816	15.07%
<i>Merchandise</i>	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.

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

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

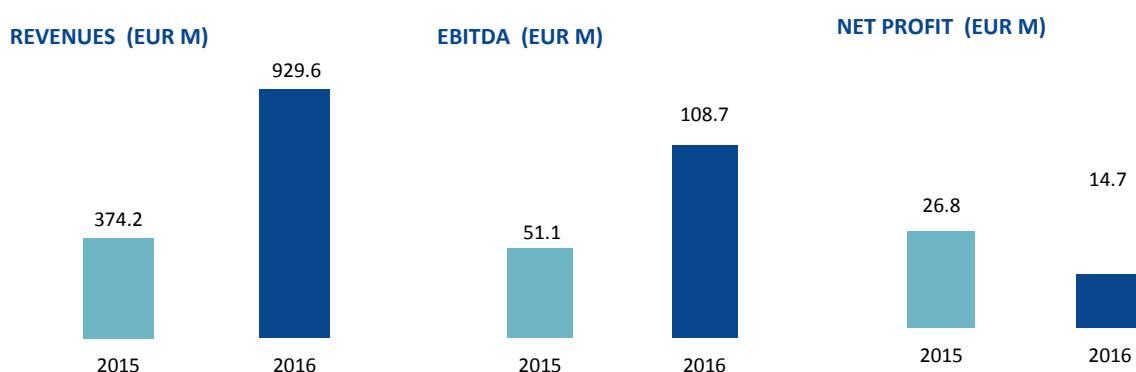


TABLE 15: CONSOLIDATED STATEMENTS OF PROFIT AND LOSS (COMPARABLE DATA OF PFLEIDERER GRAJEWO GROUP)

'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 restructure 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:

- Mortgage over properties and perpetual usufructs of Pfleiderer Grajewo Sp. z o.o. in Grajewo and Rajgród;
- Mortgage over properties and perpetual usufructs of Pfleiderer Prospan S.A. in Wieruszów and Klatka;
- 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 Rechtsanwaltsgesellschaft 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 (EXCLUDING 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 EAST – RCF							
Bank Millennium S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	2,267	-	2,267

Bank Millennium S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	7,129	-	7,129
Bank Zachodni WBK S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	4,535	-	4,535
Bank Zachodni WBK S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	6,802	-	6,802
PKO Bank Polski S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	4,535	-	4,535
PKO Bank Polski S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	6,802	-	6,802
Alior Bank S.A.	PLN	WIBOR + margin	19 Jan 2016	30 Apr 2019	6,802	-	6,802
Alior Bank S.A. (Ancillary)	PLN	WIBOR + margin	4 Feb 2016	30 Apr 2019	4,535	-	4,535

GUARANTEES CORE EAST

Bank Millenium S.A.	PLN		4 Jul 2014	30 Apr 2019	1,487	1,487	
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LIMIT OF CREDIT CARDS EAST

Bank Millenium S.A.	PLN		4 Jul 2014	30 Apr 2019	453	20	433
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Total Core East

45,347 1,507 43,840

TABLE 28: FINANCINGS CORE WEST (EXCLUDING 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, KFW, Alior Bank S.A Bank Zachodni WBK S.A	Deutsche Bank AG Filiale Deutschlandgeschäft, BNP Paribas S.A. Niederlassung Deutschland, Powszechna Kasa Oszczędności Bank Polski S.A., Bank Millennium S.A
--	---

and

Commerzbank International S.A.	as the credit agent "Agent"
Commerzbank Aktiengesellschaft 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 indebtedness 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 where 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 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 program. Cash Management at Pfeleiderer 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. Pfeleiderer 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 Pfeleiderer 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 Pfeleiderer Grajewo Sp. z o.o. and Pfeleiderer Polska Sp. z o.o. (previously Pfeleiderer 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 (Pfeleiderer 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 Pfeleiderer 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, Pfeleiderer Group S.A. financed its operations with own funds and, to a certain extent, with bank borrowings and issues of notes acquired by Pfeleiderer 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 Pfeleiderer 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 Pfeiderer 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	Receivables + cash	Average trade and other receivables	Average trade and other payables	Average inventories
	Current liabilities	Current liabilities	Revenue /360	Cost of goods sold /360	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 Pfeiderer Group S.A. to Pfeiderer 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, Pfeiderer MDF Sp. z o.o. of PLN 103,069 thousand.

Interest rate risk

Loans granted to Pfeiderer MDF Sp. z o.o. represent the sole floating interest rate instrument at the level of Pfeiderer Group S.A.

Currency risk

Further to contribution in kind of Operational Activity of the Company to Pfeiderer 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 Pfeiderer 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 Sapphire S.a.r.l.	6,172,705	9.54%	6,172,705	9.54%
Brookside S.a.r.l.	5,076,738	7.85%	5,076,738	7.85%
Field Point IV S.a.r.l.	3,079,810	4.76%	3,079,810	4.76%
Kings Forest S.a.r.l.	1,745,520	2.70%	1,745,520	2.70%
Field Point V S.a.r.l.	449,409	0.69%	449,409	0.69%
Field Point Acquisition 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 Sapphire 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 Sapphire S.a.r.l.	6,172,705	9.54%	6,172,705	9.54%
Brookside S.a.r.l.	5,076,738	7.85%	5,076,738	7.85%
Field Point IV S.a.r.l.	3,079,810	4.76%	3,079,810	4.76%
Kings Forest S.a.r.l.	1,745,520	2.70%	1,745,520	2.70%
Field Point V S.a.r.l.	449,409	0.69%	449,409	0.69%
Field Point Acquisition 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:

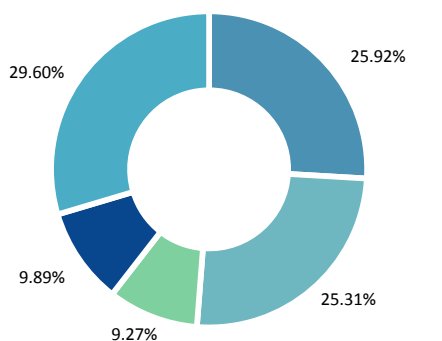
TABLE 37: SHAREHOLDER STRUCTURE AS OF 26 APRIL 2017*

	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

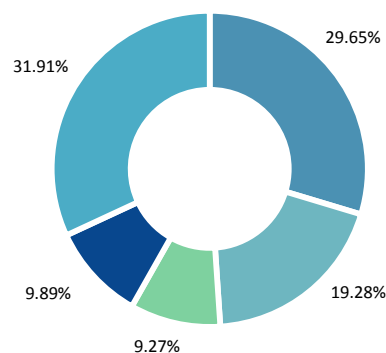
FIGURE 17: SHAREHOLDING STRUCTURE

AS AT DECEMBER 31, 2016



- Strategic Value Partners LLC
- Atlantik S.A.
- Aviva OFE Aviva BZ WBK
- Nationale Nederlanden OFE
- Other shareholders

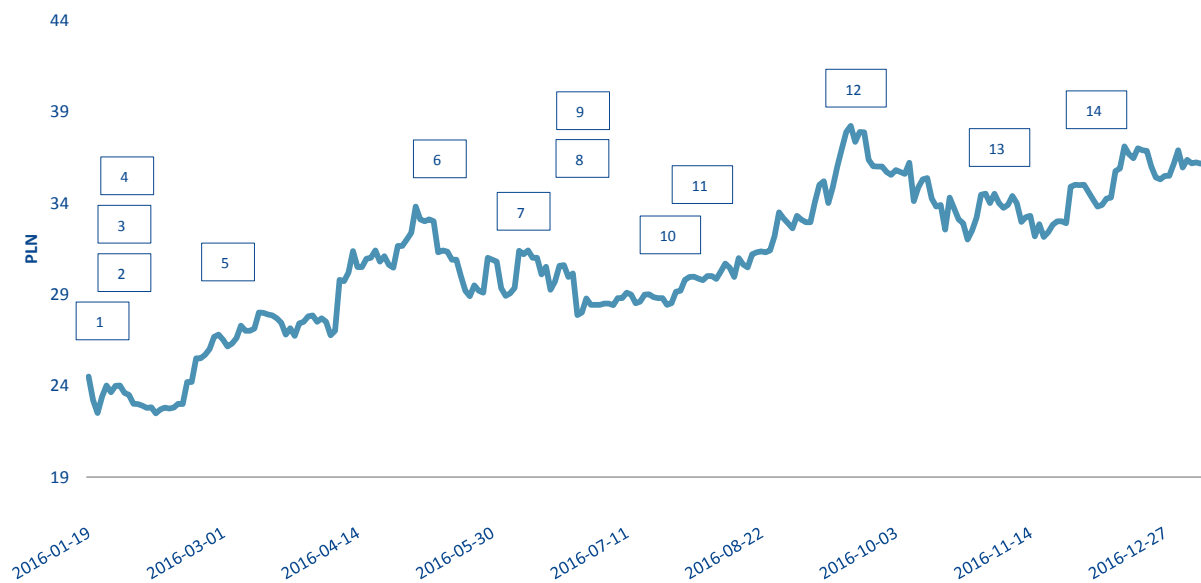
AS AT APRIL 26, 2017



- Strategic Value Partners LLC
- Atlantik S.A.
- Aviva OFE Aviva BZ WBK
- Nationale Nederlanden OFE
- Other shareholders

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

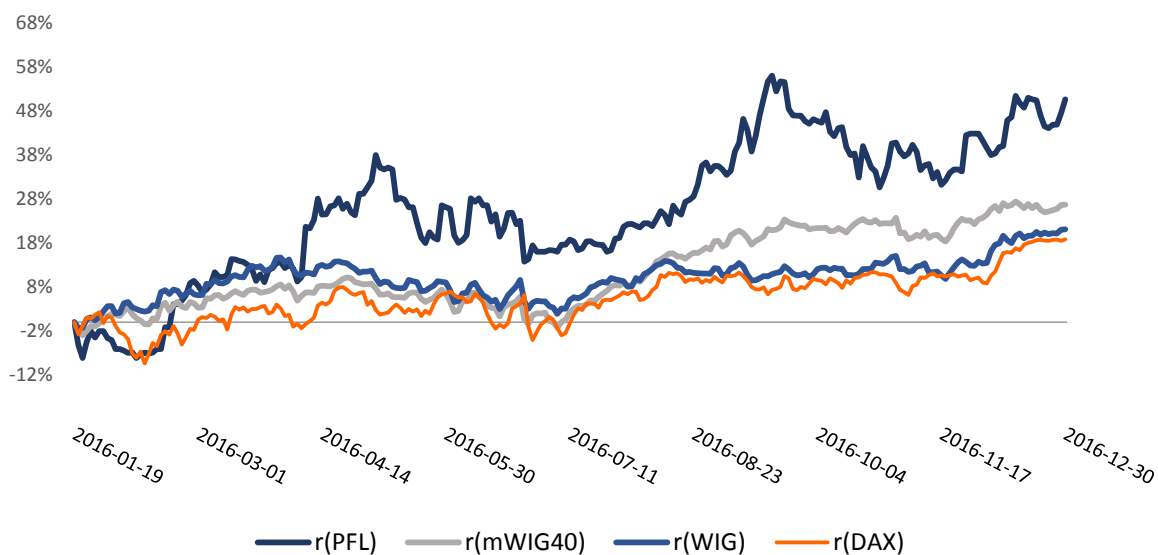
8 December: Execution of commitment letters in respect of the refinancing of existing indebtedness

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 CONTROL SYSTEM AND COMPLIANCE MANAGEMENT SYSTEMS IN REFERENCE TO PREPARING FINANCIAL STATEMENTS

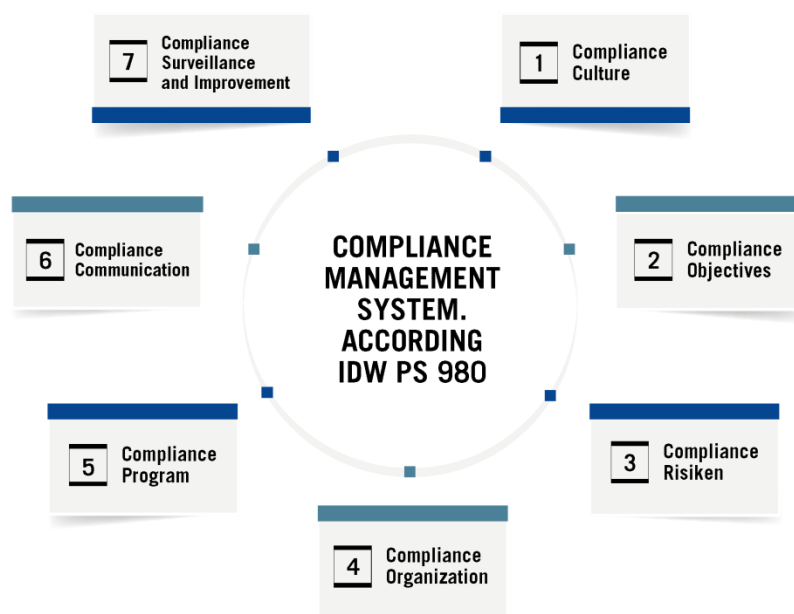
Internal Controlsystem is a process, put into effect by Pfleiderer’s Board of Directors, management, and other personnel, designed to provide reasonable assurance that the separate and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management,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

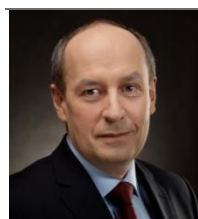


MICHAEL WOLFF

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
GAŁKIEWICZ**

MEMBER OF THE
MANAGEMENT BOARD

Mr. Wojciech Gałkiewicz (1961) completed AGH University of Science and Technology with a title of Master of Engineering. Mr Wojciech Gałkiewicz obtained a title of MBA at Gdańsk Foundation for Management Development with cooperation of Rotterdam School of Management. Mr. Wojciech Gałkiewicz 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 Gałkiewicz 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 Gałkiewicz 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). Additionally Mr Wojciech Gałkiewicz 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 University 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 Vetriere 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 KAR CZ

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 Zbigniew 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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