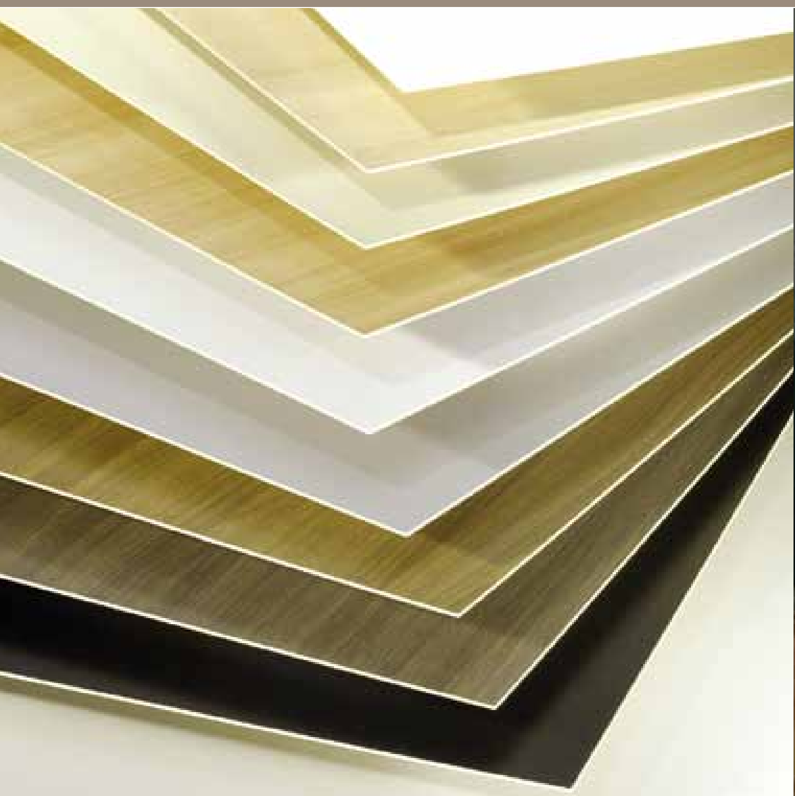
HOMANN HOLZWERKSTOFFE

Consolidated Financial Statements 2016 for Homann Holzwerkstoffe GmbH




Consolidated Financial Statements 2016 for Homann Holzwerkstoffe GmbH

for the period from January 1, 2016 to December 31, 2016

TABLE OF CONTENTS

FOREWORD

Dear Reader,

The HOMANN Group is reporting record revenues and earnings for the past fiscal year. Our sales revenues rose by 12 % to EUR 226 million, while our operating EBITDA climbed 60 % to EUR 33 million. Adjusted for one-time effects, this means that we once again met our forecast. This increased profitability is attributable to both the use of the additional capacity at the new Polish plant in Krosno and the clearly positive profit contribution made by the German plant in Losheim am See.

Strategically, our investments have pushed ahead the expansion of the finishing capacities of our three production facilities in Losheim am See, Karlino and Krosno. We were able to complete all measures as planned both in terms of time and financially and were able to realise the first positive effects already in the reporting period. These investments will gradually expand our value chain, and we want to continue on this track in 2017. At the same time, acquisitions are playing an increasingly important role in our strategic considerations. We want to expand our portfolio in individual product groups where we can further strengthen our market position but also in individual regions where we see additional growth potential for our Group. A first step was made already in the first quarter of 2017, when we acquired a plant for the production of door cores.

Our growth strategy will be supported by a financing mix optimised for our future requirements as well as the successful refinancing of the corporate bond becoming due in December 2017. This refinancing exercise will integrate both conventional bank loans and bond financing. While some of the agreements are still subject to the approval of the competent executive bodies, I am confident that the agreements will be finalised in the first half of 2017. Over the past five years, our investors placed great confidence in the HOMAN Group and in me, for which I would like to express my sincere thanks. The planned new bond is intended to maintain our presence in the capital market, and our investors' continued support for our future growth will be greatly appreciated. The new financial structure will enable us to improve our net interest income significantly in the coming years. Based on stable demand at a high level, we plan to continue our growth strategy in 2017, with sales revenues and EBITDA expected to come in at EUR 240 million and EUR 38 million, respectively.

I would like to thank our employees, whose commitment and dedication make an important contribution to the successful performance of our Group. My thanks also go to our business partners for the good cooperation.

I wish you a Happy Easter!

Yours sincerely,

Fritz Homann
Managing Director of Homann Holzwerkstoffe GmbH

GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2016

A. Presentation of the course of business

Homann Holzwerkstoffe is the parent company of the Homann Group, which comprises three operating companies – HOMANIT GmbH & Co. KG headquartered in Losheim/Germany, HOMANIT Polska Sp.z o.o. Spolka Kommandytowa headquartered in Karlino/Poland and Homanit Krosno Odranskie Sp.z. o.o. headquartered in Krosno/Poland.

The Group is a leading European supplier of thin finished wooden fibreboards for the furniture, doors, coatings and automobile industries. The product portfolio essentially comprises medium-density fibreboards (MDF) and high-density fibreboards (HDF), which are used for a wide variety of applications. The Group's customers primarily include companies from the furniture, doors and coatings industries. Special solutions, e.g. for automotive interiors, packagings or product boxes, increasingly target additional customer groups, leading to broad diversification in terms of customer structures and consequently reducing the Group's exposure to cyclical developments in individual lines of industry. The international furniture industry nevertheless remained the most important customer group in the past fiscal year.

The Homann Group's integrated business model covers all relevant stages of the value chain. All processes – from the provision of raw materials such as wood, glue and electricity to the ongoing new and further development in the context of the research and development activities to the multi-stage panel production, finishing and customisation of the products and their distribution – are handled by the production facilities in Germany and Poland. This gives the Group full control over all process steps, allowing it to efficiently ensure the high quality of its products towards its customers at all times. At the same time, flexible adjustment to individual customer requirements and short-term market changes is possible at any time. The strategic focus on innovative and efficient production processes, combined with high quality standards, is the main driver of the position held by the company in the market for very thin finished fibreboards measuring up to 3.0 mm. The Homanit Group is the European market leader in this segment.

1. Description of the business situation in 2016

Macroeconomic situation

Growth in the world economy slowed down somewhat in 2016 primarily as a result of the uncertainty arising from the changed political situation following Britain's decision to leave the European Union, the unexpected outcome of the US presidential elections and Italy's vote against constitutional amendments that would have improved the ailing country's ability to implement reforms. Real global GDP (gross domestic product) increased by a total of 2.5 % in 2016. The lower momentum is primarily attributable to the industrialised countries, whose GDP growth rate dropped from 2.3 % to 1.6 %, whereas the emerging countries posted an unchanged growth rate of 3.9 %.
Source: ifo Economic Forecast 2016-2018, December 16, 2016

The eurozone economy also weakened slightly in the reporting period. Economic growth was primarily driven by private (+1.7 %) and public (+1.9 %) consumer spending, whereas investment activity (+2.9 %) differed significantly between the individual countries. Net exports (–0.1 %) had a strongly dampening effect on the economy. The GDP growth rate for the eurozone as a whole stood at 1.7 % in 2016. A look at the performance of the individual countries shows that structural problems continue to prevent a real upswing in the eurozone.
Source: ifo Economic Forecast 2016-2018, December 16, 2016

The German economy stayed on its long-term growth path in 2016. GDP was up by 1.9 % on the previous year, not least thanks to a moderate rise in consumer spending (+2.0 %) and a sharp increase in government spending (+4.0 %), resulting from the migration-related population growth. Capital spending also showed a relatively positive trend in 2016, with investments in buildings (+3.0 %) and other plants (+2.6 %) growing particularly dynamically. By contrast, exports were rather disappointing and failed to provide any stimulation for the German economy.
Source: Destatis – Detailed gross domestic product results for the 4th quarter of 2016, February 23, 2017

Industry trend

The competitive situation for manufacturers of MDF and HDF remained essentially unchanged in the reporting period. The market segment for very thin and finished MDF and HDF measuring up to 3 mm, in which the Homan Group specialises, was characterised by healthy competition. Additional growth potential for this market segment arises from the ongoing trend towards lightweight construction in the furniture and doors industries.

The situation in the furniture industry remained positive in the reporting period. Although growth momentum slowed down somewhat, the Verband der Deutschen Möbelindustrie (association of the German furniture industry) reports that the German furniture industry grew by 3.2 % to EUR 17.96 billion in 2016, marking the third consecutive year of growth. At the same time, the situation in the raw timber market continued to ease last year, according to the Federal Statistical Office. On balance, prices were down by two to three percent at the end of the year. The growth trend in the German construction sector also continued in 2016. According to the umbrella confederation of the German construction industry (Hauptverband der Deutschen Bauindustrie), sales revenues increased by 6.3 %.
Sources: VDM Verband der Deutschen Möbelindustrie e.V. – Umsatz der Deutschen Möbelindustrie erreichte 2016 fast 18 Mrd. EUR (Sales revenues of the German furniture industry reached almost EUR 18 billion in 2016) dated February 15, 2017 and Möbelindustrie – Wirtschaftliche Auswertung 03/2017 (Furniture industry – economic evaluation); Hauptverband der Deutschen Bauindustrie e.V. – Bauhauptgewerbe 2016 (The construction sector in 2016) dated February 24, 2017

Business situation of the Group

Sales revenues for the fiscal year 2016 amounted to EUR 226 million. While this represented a 12 % increase on the previous year, it was somewhat lower than planned. The Karlino plant fell short of the budgeted figures in terms of volume and slightly exceeded them in terms of revenues. Sales of finished products were on the increase. The Losheim plant's sales volumes and revenues were up by 4 % and 7 %, respectively, on the budgeted figures. Homanit Krosno was able to slightly exceed its sales target, although all other performance indicators fell short of the projections.

At EUR 31.4 million, 2016 EBITDA remained slightly below the projected EUR 33.0 million. Adjusted for the non-cash exchange result and the income from one-time transactions, EBITDA came in as planned and was up by 60 % on the previous year.

The prices of wood and glue, the company's most important raw materials, showed a positive trend in the financial year 2016. The cost prices of glue were down both on the planned figures and the previous year. Taking into account the increase in the stocks of finished and unfinished goods, the cost of materials declined by 2.5 percentage points to 57.2 %.

Personnel expenses were up by EUR 0.9 million on the previous year, which is primarily attributable to the increase in the headcount from 1,370 to 1,412.

The PLN exchange rate trend resulted in non-cash exchange losses of EUR 4.6 million (previous year. loss of EUR 1.0 million) as well as to a reduction in Group reserves not recognised in profit/loss of EUR 0.9 million.

Taking the special revenues from the sale of land into account, the EUR 6.3 million result for the year is satisfactory. Adjusted for non-cash exchange expenses in the amount of EUR 4.6 million, the result for the year stood at EUR 10.9 million, which is in line with the budgeted result. The budget result included extraordinary revenues of EUR 3.6 million, which is equivalent to the amount actually realised.

2. Product policy

HOMANIT focuses on the production and distribution of thin HDF panels, low-swelling, low-formaldehyde boards and lightweight construction for the furniture industry while being committed to achieving the highest levels of quality as well as excellent customer care and a good delivery service.

3. Investments

The Group's investments totalled EUR 21.4 million.
HOMANIT Krosno invested EUR 8.0 million in the financial year 2016.
The Losheim plant accounted for EUR 4.8 million.
Investments at the Karlino plant amounted to EUR 8.2 million.

The main projects comprised infrastructure measures, buildings and technical equipment.

Certain systems were and will be refinanced through leasing and/or lease purchases in future.

4. Human resources

The Group employed an average of 1,412 people in 2016 (previous year: 1,370). The increase was mainly due to the fact that the investments made led to increased staff requirements at all plants.

B. Presentation of the situation

1. Net assets

Consolidated total assets declined by kEUR 2,018 from kEUR 239,024 in the previous year to kEUR 237,006 in the financial year 2016. Investments of kEUR 21,366 contrasted with systematic depreciation of kEUR 15,112. Investments were covered by operating cash flow.

Inventories decreased by kEUR 2,138. The stocks of raw materials and finished goods depend on the time at which the main plants require maintenance.

Trade receivables increased by kEUR 703 on the previous year. The main companies have signed factoring agreements. These are non-recourse factoring agreements.

Receivables from shareholders as well as from affiliated companies decreased to kEUR 13,530.

The equity ratio amounted to 10.0 % (previous year: 8.9 %).

Adjusted for the exchange differences recognised in Group reserves and taking the silent partnership into account, the equity ratio stood at 16.0 % (previous year: 13.9 %).

2. Financial position

The HHW Group's operating cash flow (consolidated result plus depreciation) climbed from kEUR 16,828 in the previous year to kEUR 21,398. Net cash used in investing activities amounted to kEUR 14,470. Financing activities resulted in a further cash outflow of kEUR 16,371, which comprised the proceeds from new loan agreements (kEUR 2,930) less loan repayments (kEUR 6,476) as well as interest payments on the loans. As of December 31, 2016, the Group's cash and cash equivalents and free securities totalled kEUR 5,186. According to DRS 21 for the presentation of the cash flow statement, short-term liabilities to financial institutions have to be deducted from these funds.

3. Results of operation

At kEUR 226,740, total output exceeded the previous year's kEUR 206,952. Increased sales revenues contrast with changes in the stocks of finished and unfinished goods of kEUR –2,354 as well as reduced own work capitalised of kEUR –1,200.

C. Forecast

1. Future development

Macroeconomic situation

The German Council of Economic Experts expects the moderate growth in the world economy to continue and projects a global GDP growth rate of 2.5 % and 2.8 % for 2016 and 2017, respectively. Following the temporary slowdown in the first half of 2016, the US economy is likely to grow more strongly again. The recovery in Japan and the eurozone is expected to continue, although the pace of growth will probably slow down somewhat, as the effects of monetary policy and the positive effect of the low oil price on real incomes will expire. As oil prices pick up moderately, inflation will also increase again. No sudden slump in GDP is expected for China, and the stabilisation process in the other emerging countries is likely to continue.
Source: "Internationale Konjunktur: Geldpolitik nicht überfordern" – Chapter 2 Annual Economic Report 2016/2017, p. 49

Industry trend

The wooden materials industry is projecting slightly higher revenues for 2017 compared to the previous year. The furniture industry, which is a major buyer of wooden materials, expects moderate growth between 1 % and 2 %.

Business situation of the Group in 2017

In the core countries supplied by the Group, especially Germany, Belarus, France and Italy, the market for thin boards remains stable at a high level. In Poland and the Baltic states, the good market trend of the past years will continue. The Group plans a capacity of 720 thsd. cubic metres for 2017, with sales revenues projected to come in at EUR 240 million. We see no utilisation problem, as all plants will be well used.

The strategic focus will be on expanding the finishing activities and, hence, on increasing profitability in the core business segments, on reducing the Group's leverage and on strengthening its equity base.

Investments will total EUR 15.0 million and largely relate to machinery and technical equipment.

The planned consumption of materials is essentially based on the actual figures of 2016 in conjunction with slightly higher revenues. We continue to work on optimising the consumption of materials. We assume that the purchase prices of wood and glue will not increase in 2017.
We expect EBITDA to amount to EUR 38.0 million in 2017.

2. Future opportunities and risks

The estimates of the market trend and the implementation of investments required in 2017 are generally based on the assumption that the macroeconomic situation will not deteriorate.

Growing scepticism towards the European Union, the migration of refugees and the demographic change are the key challenges for Europe and Germany. Real year-on-year GDP growth rates of 1.3 % and 1.6 % are expected for Germany and the eurozone, respectively.

While the ECB's unusually loose monetary policy made a major contribution to the upswing in the eurozone, the extent of the monetary easing is no longer appropriate. As substantial structural problems remain unsolved, the upswing is not self-sustained.
Source: Annual Economic Report 2016/2017 – Council of Economic Experts, November 2, 2016

The assumptions on which our plans and projections for the financial years 2017 and beyond are based do not provide for material changes in energy policy, which means that we believe that energy-intensive enterprises in Germany will continue to benefit from rebates and discounts (eeG apportionment) also in future.

Risks may result from the loss of essential customers. In view of the existing contractual relationships, we currently do not assume that we will lose any essential customers.

Most of the company's liquidity requirements have so far been covered by the bond issued in December 2012. In addition, HHW has sufficient overdraft facilities with its banks. Daily planning of incoming and outgoing payments ensures that the company permanently monitors its liquidity requirements. Moreover, the actual liquidity requirements are checked against the plans and budgets and potential differences are analysed.

The EUR 100 million bond will be due for repayment in December 2017. In view of the results achieved in 2016 and the planned further improvements, we see the Homann Group in a good situation, which has been confirmed by the results of the refinancing talks to date. The refinancing concept aims for a notable reduction in interest payments as well as for a time structure of the repayment conditions that will significantly reduce the Group's liabilities in the coming years. The refinancing concept will focus on those subsidiaries whose profitability makes them cash flow generators for the Group.

As a result of the negotiations to date, banks have submitted term sheets for a EUR 75 million refinancing. Management assumes that the signing of the agreements and the furnishing of collateral will be completed in the first half of the year.

In view of the declarations of intent obtained so far, the continued good earnings position and the talks currently held, management believes that the further refinancing requirements can be covered in a timely manner. The interest rates and conditions offered so far are much lower than the interest paid on the bond.

Should a situation arise where the declarations of intent do not result in signed agreements, the earnings position deteriorates significantly or the current cash flow or credit commitments are insufficient to cover the further refinancing requirements, the continued existence of the Group may be at risk.

The Polish plants in Karlino and Krosno are exposed to an exchange rate risk. Another risk relates to the recruitment of qualified staff, which is why the automation process will play a more important role going forward.

3. Outlook and strategic plans for the coming years

Wage-intensive activities are no longer performed in Germany. We have focused on the production of thin MDF/HDF fibreboards for many years; this strategy has paid off and will be continued.

In view of the start-up of the Krosno plant in the financial year 2015 and the planned capacity utilisation of all plants, we project a positive business trend for 2017 and beyond. We therefore believe that the preconditions for the successful full refinancing of the bond and the continued stable financing of the HHW Group are in place.

In line with our plans, the figures for the first three months of 2017 are positive.

The HHW Group regularly prepares detailed plans and budgets which reflect revenues, costs and financial developments. Its companies operate functioning internal SaP-based control systems which regularly monitor the net assets, financial position and earnings situation.

Building on consistent market observation and the translation of market analysis results into plans and clearly defined targets as well as on efficient structures and short decision-making lines, we feel we are well positioned for the future.

Herzberg, March 31, 2017

(Fritz Homann)

Homann Holzwerkstoffe GmbH
Herzberg am Harz

Notes to the consolidated financial statements
for the period from January 1, 2016 to December 31, 2016

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2016

Homann Holzwerkstoffe GmbH, Herzberg

ASSETS

	Item Comment	EUR	Dec. 31, 2016 EUR	Dec. 31, 2015 EUR
A. Fixed assets				
I. Intangible assets	6.a.			
1. Concessions acquired against payment, commercial trademark rights and similar rights and assets as well as licenses to such rights and assets		4,063,587.97		417,109.76
2. Advance payments made		14,719.77		3.414,168.95
			4,078,307.74	3,831,278.71
II. Tangible assets	6.a.			
1. Properties, rights equivalent to real property and structures including structures on third-party properties		43,841,228.83		44,998,943.52
2. Technical equipment and machinery		113,523,557.09		112,097,411.27
3. Other property, plant and equipment		6,372,255.12		5,760,136.54
4. Advance payments made and work in progress		2,934,467.94		6,760,950.62
			166,671,508.98	169,617,441.95
III. Financial assets	6.b.			
1. Shares in affiliated companies		36,301.99		36,732.96
2. Equity investments		782,324.50		782,324.50
			818,626.49	819,057.46
			171,568,443.21	174,267,778.12
B. Current assets				
I. Inventories				
1. Raw materials and supplies		15,290,561.06		15,699,881.52
2. Unfinished goods		2,273,703.67		25,234.03
3. Finished goods		7,700,965.24		11,686,892.72
4. Advance payments made		72,503.22		64,112.28
			25,337,733.19	27,476,120.55
II. Receivables and other assets	6.c.			
1. Trade receivables		1,455,639.49		753,012.84
2. Receivables from affiliated companies		136,641.16		1,442,794.33
3. Receivables from shareholders		13,393,634.96		15,567,755.00
4. Other assets		14,766,566.58		9,727,729.98
			29,752,482.19	27,491,292.15
III. Other securities	6.d.		908,723.19	1,241,140.80
IV. Cash holdings, bank deposits and cheques			5,055,757.64	4,694,422.81
			61,054,696.21	60,902,976.31
C. Accrued items	6.c.		2,183,907.76	1,200,964.32
D. Deferred tax assets	6.e.		2,198,890.00	2,651,887.00
			237,005,937.18	239,023,605.75

LIABILITIES

	Item Comment	EUR	Dec. 31, 2016 EUR	Dec. 31, 2015 EUR
A. Equity capital	6.f.			
I. Subscribed capital		25,000,000.00		25,000,000.00
II. Capital reserves		25,564.60		25,564.60
III. Other retained earnings		21,839.00		21,839.00
IV. Group reserves		–10,037,131.03		–9,156,372.87
V. Consolidated unappropriated retained earnings		8,801,333.40		5,264,877.00
			23,811,605.97	21,155,907.73
B. Provisions	6.g.			
1. Provisions for pensions		1,813,197.00		1,596,605.00
2. Provisions for taxes		1,664,372.32		1,511,869.90
3. Other provisions		2,848,652.26		3,237,420.88
			6,326,221.58	6,345,895.78
C. Liabilities	6.h.			
1. Bonds		100,000,000.00		100,000,000.00
2. Silent partnership		4,000,000.00		5,250,000.00
3. Liabilities to financial institutions		67,911,516.30		74,388,339.13
4. Liabilities to affiliated companies		26,117,535.01		22,939,986.35
5. Liabilities to shareholders		16,550.22		30,578.33
6. Other liabilities		8,822,508.10		8,804,898.43
			206,868,109.63	211,413,802,24
D. Accrued and deferred items	6.i.		0.00	108,000.00
			237,005,937.18	239,023,605.75
Contingent liabilities	8.			

CONSOLIDATED INCOME STATEMENT

Homann Holzwerkstoffe GmbH, Herzberg
for the period from January 1, 2016 to December 31, 2016

	Item Comment	Dec. 31, 2016 EUR	Dec. 31, 2015 EUR
1.Revenues	7.a	225,461,310.61	202,119,095.15
2.Reduction/increase in inventory of finished and unfinished goods		–228,141.61	2,126,222.22
3.Other own work capitalised		1,506,833.79	2,707,294.41
4.Other operating income	7.b	8,847,410.40	7,204,511.91
		235,587,413.19	**214,157,123.69**
5.Cost of materials			
a) Cost of raw materials and consumables and goods for resale		–113,086,156.58	–108,656,898.18
b) Cost of purchased services		–16,456,642.95	–16,932,594.59
		–129,542,799.53	–125,589,492.77
Gross profit or loss		**106,044,613.66**	**88,567,630.92**
6.Expenses for personnel	7.c		
a) Wages and salaries		–26,673,918.83	–25,828,653.09
b) Social security, pensions and other benefits		–5,567,076.18	–5,548,931.30
		–32,240,995.01	–31,377,584.39
7.Depreciation and amortisation of intangible and tangible fixed assets		–15,111,732.76	–12,628,354.89
8.Other operating expenses	7.d	–42,418,562.89	–33,785,312.22
Operating result		**16,273,323.00**	**10,776,379.42**
9.Income from investments		110,419.50	0.00
10.Income from other investments and loans classified as financial assets		80,000.00	80,000.00
11.Other interest and similar income		1,168,715.41	1,056,660.28
12.Write-down of financial investments and investments classified as current assets		–20,652.93	–34,062.35
13.Interest and similar expenditure		–9,993,158.50	–7,498,708.52
Financial result	7.e	**–8,654,676.52**	**–6,396,110.59**
14.Income taxes	7.f	–1,332,190.08	–180,455.28
15.Earnings after taxes		**6,286,456.40**	**4,199,813.55**
16.Consolidated net income		**6,286,456.40**	**4,199,813.55**
17.Consolidated net income carried forward		5,264,877.00	1,065,063.45
18.Advanced distribution of profit		–2,750,000.00	0.00
19.Consolidated unappropriated retained earnings		**8,801,333.40**	**5,264,877.00**

CONSOLIDATED STATEMENT OF CASH FLOWS

Homann Holzwerkstoffe GmbH, Herzberg
for the period from January 1, 2016 to December 31, 2016

	2016 kEUR	2015 kEUR
Consolidated result	6,286	4,200
Depreciation of assets	15,112	12,628
Decrease in provisions	–19	–264
Other non-cash expenses	–1	121
Decrease/increase in inventories	2,138	–5,447
Increase/decrease in trade receivables	–703	1,428
Increase/decrease in receivables from shareholders	3,481	–3,285
Increase/decrease in other assets	–5,567	9,799
Increase/decrease in trade payables	3,177	–5,572
Decrease in liabilities to shareholders and affiliated companies	–15	–24
Decrease/increase in other liabilities	–91	272
Loss/profit from the disposal of fixed assets	–3,582	–4,891
Interest expenses / interest income	8,824	8,672
Currency-related change in assets/liabilities	4,760	–184
Cash inflow from operating activities	**33,800**	**17,453**
Proceeds from the disposal of tangible assets/intangible assets	6,866	5,908
Cash paid for investments in tangible assets/intangible assets	–21,336	–29,757
Cash outflow from investing activities	**–14,470**	**–23,849**
Cash received from raising borrowings	2,930	9,207
Cash paid for the redemption of borrowings	–6,476	–8,460
Distribution of profits	–2,750	0
Cash paid for the redemption of the silent partnership	–1,250	0
Interest paid	–8,824	–8,672
Cash outflow from financing activities	**–16,370**	**–7,925**
Change in cash and cash equivalents	**2,960**	**–14,321**
Cash and cash equivalents at the beginning of the period	–30,917	–16,596
Cash and cash equivalents at the end of the period	**–27,957**	**–30,917**

Composition of cash and cash equivalents:	**31,12,2016** **TEUR**	**31,12,2015** **TEUR**
Cash	5,056	4,694
Securities	130	463
Current account overdraft facilities provided by banks	–33,144	–36,074
	–27,958	**–30,917**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Homann Holzwerkstoffe GmbH, Herzberg
for the period from January 1, 2016 to December 31, 2016

	Majority shareholder					
	Subscribed capital EUR	Capital reserves EUR	Other profit reserves EUR	Group reserves (adjustment item from foreign currency translation) EUR	Consolidated unappropriated retained earnings (Group equity capital generated) EUR	Equity capital EUR
January 1, 2015	25,000,000	25,565	21,839	–9,155,665	1,065,063	16,956,802
Exchange differences	0	0	0	–708	0	–708
Group result for the year	0	0	0	0	4,199,814	4,199,814
December 31, 2015/ January 1, 2016	25,000,000	25,565	21,839	–9,156,373	5,264,877	21,155,908
Cash payments made to partners	0	0	0	0	–2,750,000	–2,750,000
Exchange differences	0	0	0	–880,758	0	–880,758
Group result for the year	0	0	0	0	6,286,456	6,286,456
December 31, 2016	25,000,000	25,565	21,839	–10,037,131	8,801,333	23,811,606

Homann Holzwerkstoffe GmbH
Herzberg am Harz

Explanatory notes to the consolidated financial statements
for the period from January 1, 2016 to December 31, 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2016

1. Preparation of the consolidated financial statements

The consolidated financial statements of Homann Holzwerkstoffe GmbH (HHW) for the year ended December 31, 2016 were drawn up in accordance with the requirements of the German Commercial Code (HGB). The financial statements of consolidated companies were generally prepared in accordance with the requirements of the respective countries. For the purposes of the consolidated financial statements, the separate financial statements were converted pursuant to sections 300, para. 2, and 308 HGB to uniform accounting in accordance with the principles applicable to the parent company. The consolidated income statement is organised according to the total cost accounting method (Gesamtkostenverfahren; section 275, para. 2 HGB). The coming into force of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) has resulted in a changed presentation in the commercial income statement of HHW. To facilitate a comparison, we have adjusted the prior year figures to the BilRUG regulations. Please refer to point 7 in the notes to the consolidated financial statements. HHW is registered in the Commercial Register of the Göttingen local court under HRB 200679.

2. Basis of consolidation

The following companies were included in the consolidated financial statements as of December 31, 2016:

No.	Company	Equity share	Held by	Equity Dec. 31, 2016 100 %	Net profit/loss for the period as of Jan. 1, 2016 - Dec. 31, 2016
		%	No.	kEUR	
1	Homann Holzwerkstoffe GmbH, Herzberg			25,092	+6,028
2	Homanit Holding GmbH, Losheim	100.00	1	53,588	+8,746
3	Homanit GmbH & Co. KG, Losheim	100.00	2	35,512	+14,385
4	Homanit Verwaltungsgesellschaft mbH, Losheim	100.00	3	33	+1
5	Homanit France SARL, Schiltigheim	100.00	3	23	+1
6	Homanit Polska Sp. z o.o., Spolka	99.99	3	58,400	+13,963
	Kommandytowa, Karlino	0.01	7		
7	Homanit Polska Sp. z o.o., Karlino	100.00	3	440	+92
8	Homatrans Sp. z o.o., Karlino	100.00	6	1,212	+356
9	Homanit Krosno Odranskie Sp.z o.o., Krosno	99.99	2	–7,538	−8,093
10	Homatech Polska Sp. z o.o., Karlino	100.00	6	198	+29

3. Consolidation principles

Capital consolidation is performed by offsetting the carrying amount of investments in the Group companies against the proportionate balance sheet equity at the time of initial inclusion. The consolidated financial statements show no goodwill from capital consolidation. Negative goodwill is recognised in Group reserves. The purchase method (Neubewertungsmethode) was used for Group companies that were included in the consolidated financial statements for the first time after December 31, 2009.

Payables and receivables between consolidated companies are eliminated.

Revenues, income and expenses between consolidated companies are eliminated.

Interim results with respect to finished and unfinished goods from intra-Group deliveries and services as well as gains and losses from intra-Group sales of fixed assets are eliminated, unless they are of minor importance.

4. Currency translation

The balance sheets of consolidated companies drawn up in a foreign currency are translated at the rate in effect as of December 31, while income statements are generally translated at the average rate for the financial year. Rate differences from the translation of subscribed capital as well as profit carried forward from subsequent consolidation are recognised in Group reserves. The differences from translation of annual results at average rates are recognised in Group reserves with no effect on profit or loss. Rate differences arise from the translation of payables and receivables denominated in a foreign currency where the translation rate has changed between the time the payable or receivable arose and the balance sheet date. These rate differences are recognised in Group reserves with no effect on profit or loss.

5. Accounting policies

HHW accounting policies also apply to the consolidated financial statements. Annual financial statements drawn up in accordance with Polish law were generally adjusted to conform with the consolidated accounting guidelines under HGB.

Intangible assets are measured at cost of purchase, less scheduled straight-line depreciation.

Tangible fixed assets are measured at cost of purchase or manufacture less scheduled depreciation. The latter consists in part of the expenses incurred until the time the facilities reached operable condition. Amortisation and depreciation are carried out using both the straight-line and the declining-balance method based on the expected useful life of the asset and in accordance with tax provisions. The straight-line method is applied where it leads to a higher rate of amortisation or depreciation than the declining balance method.

Financial assets are measured at cost of purchase. Required valuation adjustments are applied.

Inventories are measured at cost of purchase and cost of manufacture according to the strict lower of cost or market principle.

Cost of manufacture consists in part of direct material and production unit costs as well as the necessary material and production overhead costs. Administrative costs and cost of sales are not included in the cost of manufacture.

Receivables and other assets are recognised at nominal values. Individual impairments are undertaken for individual risks. Foreign-currency receivables are recognised at the exchange rate in effect on the transaction date or at lower rates in effect on the balance sheet date if the remaining term exceeds one year.

Investments classified as current assets are recognised at cost. They are written down to the lower fair value if the market value is below the cost of acquisition on the effective date. A write-up is performed when the market value increases again. The cost of acquisition is the upper limit for the valuation.

Liquid funds are stated at the nominal value. Funds in foreign currencies are translated at the spot exchange rate as of the reporting date.

Special rental payments and advance payments of costs that concern the months after December 31 are recognised in **prepaid expenses**.

The right to elect to capitalise **deferred taxes** for the total tax relief is exercised. Deferred tax assets and liabilities are offset in the balance sheet. For details, please see the remarks in the notes to the balance sheet.

With regard to the recognition of **provisions for pensions**, please see the remarks in the notes to the balance sheet.

Tax provisions and **other provisions** take into account all discernible risks and contingent liabilities pursuant to section 253, para. 1, sentence 2 HGB. Provisions with a term of more than one year are discounted at the average market interest rate over 15 years.

Liabilities are recognised at the repayment amount. Liabilities in foreign currencies are translated at the exchange rate on the day of acquisition; as of the reporting date, foreign currency liabilities are measured at the spot exchange rate in accordance with the realisation, imparity and acquisition cost principle if the remaining term exceeds one year.

6. Notes to the consolidated balance sheet

a) Fixed assets

Changes in consolidated fixed assets:

	Cost of purchase/manufacture					
	Date 01.01.2016	Re-classifications	Additions	Disposals	Foreign exchange differences	Date 31.12.2016
	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets						
1. Concessions acquired against payment, commercial trade-mark rights and similar rights and assets as well as licenses to such rights and assets	2,083,634.91	3,415,715.06	1,027,029.72	–551,373.68	–32,578.32	5,942,427.69
2. Advance payments made	3,414,168.95	–3,414,168.95	14,719.77	0.00	0.00	14,719.77
	5,497,803.86	1,546.11	1,041,749.49	–551,373.68	–32,578.32	5,957,147.46
II. Tangible fixed assets						
1. Properties, rights equivalent to real property and structures including structures on third-party properties	68,712,598.10	1,931,822.57	1,005,995.29	–106,481.03	–1,709,300.33	69,834,634.60
2. Technical equipment and machinery	167,017,235.26	6,953,125.25	8,819,880.80	–1,056,431.07	–5,357,678.99	176,376,131.25
3. Other property, plant and equipment	13,652,688.51	32,285.01	2,336,866.27	–700,592.02	–264,318.06	15,056,929.71
4. Advance payments made and work in progress	6,760,950.62	–8,918,778.94	8,131,789.31	–2,907,066.07	–132,426.98	2,934,467.94
	256,143,472.49	–1,546.11	20,294,531.67	–4,770,570.19	–7,463,724.36	264,202,163.50
III. Financial assets						
1. Shares in affiliated companies	36,732.96	0.00	0.00	0.00	–430.97	36,301.99
2. Equity investments	782,324.50	0.00	0.00	0.00	0.00	782,324.50
3. Other loans	2,000,000.00	0.00	0.00	–2,000,000.00	0.00	0.00
	2,819,057.46	0.00	0.00	–2,000,000.00	–430.97	818,626.49
	264,460,333.81	0.00	21,336,281.16	–7,321,943.87	–7,496,733.65	270,977,937.45

Depreciation/impairments					Book value	
Date Jan. 1, 2016	Additions	Disposals	Foreign exchange differences	Date Dec. 31, 2016	Date Dec. 31, 2016	Date Jan. 1, 2016
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,666,525.15	785,727.95	–551,373.68	–22,039.70	1,878,839.72	4,063,587.97	417,109.76
0.00	0.00	0.00	0.00	0.00	14,719.77	3,414,168.95
1,666,525.15	785,727.95	–551,373.68	–22,039.70	1,878,839.72	4,078,307.74	3,831,278.71
23,713,654.58	2,613,665.03	–15,906.50	–318,007.34	25,993,405.77	43,841,228.83	44,998,943.52
54,919,823.99	10,301,262.83	–955,009.52	–1,413,503.14	62,852,574.16	113,523,557.09	112,097,411.27
7,892,551.97	1,411,076.95	–515,343.50	–103,610.83	8,684,674.59	6,372,255.12	5,760,136.54
0.00	0.00	0.00	0.00	0.00	2,934,467.94	6,760,950.62
86,526,030.54	14,326,004.81	–1,486,259.52	–1,835,121.31	97,530,654.52	166,671,508.98	169,617,441.95
0.00	0.00	0.00	0.00	0.00	36,301.99	36,732.96
0.00	0.00	0.00	0.00	0.00	782,324.50	782,324.50
2,000,000.00	0.00	–2,000,000.00	0.00	0.00	0.00	0.00
2,000,000.00	0.00	–2,000,000.00	0.00	0.00	818,626.49	819,057.46
90,192,555.69	15,111,732.76	–4,037,633.20	–1,857,161.01	99,409,494.24	171,568,443.21	174,267,778.12

b) Financial assets

As of December 31, 2016, the shares in HBG Holz-Baustoff Beteiligungs-GmbH, Munich, and the shares in HOPE Investment sp.z.o.o. (formerly Homanit Poznan sp.z.o.o.) were recognised as shares in affiliated companies. These companies are not consolidated as they are of minor importance.

The equity investments relate to DHN Transportmittel GmbH & Co. KG as well as its general partner. The Group holds 50 % of the shares in each company. These companies are not consolidated as they are of minor importance.

c) Receivables, other assets, prepaid expenses

Receivables from shareholders involve the interest-bearing clearing accounts with VVS GmbH and Fritz Homann GmbH and mainly result from loans. Receivables from affiliated companies are receivables from companies affiliated via the shareholders as well as from companies not included in the consolidated financial statements due to their minor importance. Significant items recognised in other assets include an investment held for resale of kEUR 3,514, tax refund claims amounting to kEUR 6,195 (previous year: kEUR 4,857) as well as receivables from factoring companies amounting to kEUR 2,795 (previous year: kEUR 1,657). Deferred charges primarily include the prepaid expenses from rental and leasing payments of kEUR 837 as well as insurance contributions for the time after December 31, 2016. Receivables, other assets and prepaid expenses in the amount of kEUR 14,000 (previous year: kEUR 16,327) have a remaining term of more than one year.

d) Other securities

Homann Holzwerkstoffe GmbH holds the following securities in its custody accounts:

	Dec. 31, 2016 kEUR	Dec. 31, 2015 kEUR
Corporate bonds	778	878
Other fund shares	131	363
	909	1,241

Of the corporate bonds, an amount of kEUR 778 (previous year: kEUR 778) relates to an investment in the bond issued by the company.

e) Deferred tax assets

Deferred tax assets totalling kEUR 200 (previous year: kEUR 248) are the result of different values recognised in the commercial balance sheet and the tax balance sheet. Deferred tax liabilities of kEUR 284 (previous year: kEUR 422) were deducted from these. Additional deferred tax assets of kEUR 2,091 (previous year: kEUR 2,605) were calculated on losses carried forward. The tax payable was determined in accordance with the respective legal form. Tax rates of between 14 % and 26.25 % were used. Consolidation measures resulted in additional deferred tax assets totalling kEUR 192 (previous year: kEUR 221). The parent company's tax rate of 26.25 % was used for consolidation. An amount of kEUR 2,199 is subject to a distribution restriction pursuant to section 268 para. 8 of the German Commercial Code (HGB).

f) Equity

Subscribed capital, reserves and consolidated unappropriated retained earnings are recognised as **equity**. Pursuant to commercial register entries, the following shareholder relationships existed as of December 31, 2016:

	kEUR	%
Fritz Homann GmbH	20,000	80.00
VVS GmbH	5,000	20.00
	25,000	100.00

Other retained earnings resulted from the change of accounting rules implemented as a result of the German Accounting Modernisation Act (BilMoG).

Group reserves consist of the following:

	Dec. 31, 2016 TEUR	Dec. 31, 2015 TEUR
Exchange differences	−10,119	–9,238
Negative goodwill arising from capital consolidation	82	82
	−10,037	–9,156

The negative goodwill resulting from initial consolidation relates to Homatrans (kEUR 80) and Homanit Verwaltungs GmbH (kEUR 2). In the event of the sale of the shares in these companies, the negative goodwill will be released through profit.

As of December 31, 2016, **consolidated unappropriated retained earnings** amounted to kEUR 8,801. The reconciliation is presented in the income statement.

g) Provisions

The projected unit credit method was applied as the actuarial calculation method for the subsidiaries, while the modified entry age normal method was used for the parent company based on the “2005 G“ tables of Prof. Klaus Heubeck. The calculation was based on the following assumptions:

	Dec. 31, 2016 kEUR
Interest rate at the beginning of the fiscal year	4.31 %
Interest rate at the end of the fiscal year	4.01 %
Anticipated wage and salary increases p.a.	0.00 %
Expected pension increases p.a.	1.50 %
Staff turnover p.a.	3.30 %

As of December 31, 2016 an amount of kEUR 72 from the first-time adoption of the German BilMoG Act had not yet been recognised in pension provisions.

This resulted in a difference within the meaning of section 253 para. 6 sentence 1 HGB of kEUR 72; i.e. the pension obligation would have to be increased by this amount if the average interest rate of the past seven years were chosen.

The tax provisions include settlement arrears from trade and corporate tax payment obligations for 2016 as well as from previous years primarily as a result of tax audits.

Other provisions primarily involve obligations to employees. The liabilities resulting from domestic early retirement arrangements are backed by securities. These securities are offset against the underlying liabilities. As of December 31, 2016, a negative difference in the amount of kEUR 200 arose which was recognised in other provisions. The provisions amounted to kEUR 1,845, and the plan assets offset against the latter at fair value amounted to kEUR 1,645. In the income statement, the expenses from compounding were offset against the interest income from the investment of the plan assets.

h) Liabilities

Liabilities have the following maturity structure:

Dec. 31, 2016	up to 1 year	1 to 5 years	more than 5 years	total
1. Bonds	100,000,000.00	0.00	0.00	100,000,000.00
2. Silent partnership	0.00	0.00	4,000,000.00	4,000,000.00
3. Liabilities to financial institutions	45,868,006.00	20,372,668.30	1,670,842.00	67,911,516.30
4. Trade liabilities	26,117,535.01	0.00	0.00	26,117,535.01
5. Liabilities to affiliated companies	16,550.22	0.00	0.00	16,550.22
6. Other liabilities	6,336,060.85	2,486,447.25	0.00	8,822,508.10
	178,338,152.08	22,859,115.55	5,670,842.00	206,868,109.63

Dec. 31, 2015	up to 1 year	1 to 5 years	more than 5 years	total
1. Bonds	0.00	100,000,000.00	0.00	100,000,000.00
2. Silent partnership	1,250,000.00	0.00	4,000,000.00	5,250,000.00
3. Liabilities to financial institutions	48,119,709.27	22,814,455.86	3,454,174.00	74,388,339.13
4. Trade liabilities	22,939,986.35	0.00	0.00	22,939,986.35
5. Liabilities to affiliated companies	30,578.33	0.00	0.00	30,578.33
6. Other liabilities	8,075,738.31	558,760.80	170,399.32	8,804,898.43
	80,416,012.26	123,373,216.66	7,624,573.32	211,413,802.24

On 14 December 2012, the company issued a 5-year corporate bond in the amount of EUR 50 million at the Frankfurt/Main stock exchange. The bond was increased by EUR 25 million each in July 2013 and in May 2014. Interest is payable retroactively on December 14 of each year. The interest rate is 7.0 % p.a. The bond is unsecured and unsubordinated. Interest was recognised on an accrual basis as of December 31, 2016..

The silent partnership relates to a Saarland-based bank and has a term until September 30, 2022. A non-profit-related compensation of 5.0 % as well as an additional profit-related compensation of 2 % is paid.

Liabilities to financial institutions are secured by land charges (Grundschulden) on corporate properties and by security assignments relating to purchased machinery and inventories. The remaining liabilities are unsecured.

Liabilities towards affiliated companies are trade liabilities.

Other liabilities essentially comprise liabilities from the financing of fixed asset items (lease purchase and leasing agreements) of kEUR 5,567 and wages outstanding in the amount of kEUR 1,185 (previous year: kEUR 1,047) as well as accrued interest under the bond issue in the amount of kEUR 311 (previous year: kEUR 311). Taxes accounted for kEUR 350 (previous year: kEUR 325) and social insurance contributions for kEUR 817 (previous year: kEUR 719).

7. Notes to the income statement

In the consolidated financial statements for the fiscal year 2016, sales revenues were, for the first time, presented on the basis of the redefinition of sales revenues under the BilRUG Act. Due to the resulting reclassification of expenses and income, not only sales revenues but also other operating income, costs of purchased services and other operating expenses stated in the income statement are no longer comparable with the amounts shown in the consolidated financial statements for the fiscal year 2015. The prior year figures in the income statement have therefore been adjusted accordingly.

The prior year figures were also adjusted to reflect the modified structure of the income statement under the BilRUG Act, which no longer provides for extraordinary items and a differentiation between the result from ordinary activities and the extraordinary result. The extraordinary expenses stated in the income statement of the previous year (restructuring expenses) in the amount of kEUR 331 have been reclassified to personnel expenses.

Reconciliation of 2015 income statement items under BilRUG

	Before BilRUG	After BilRUG	Adjustment
	kEUR	kEUR	kEUR
Sales revenue	200,597	202,119	1,522
Other operating income	8,608	7,205	–1,403
Cost of raw materials and consumables and goods for resale	–106,404	–108,658	–2,254
Cost of purchased services	–16,411	–16,933	–522
Wages and salaries	–25,982	–25,829	153
Social security contributions	–5,218	–5,549	–331
Other operating expenses	–36,289	–33,785	2,504
Extraordinary expenses	–331		331
	18,570	18,570	0

a) Revenues

The Group generates its revenues in the following markets:

	2016 kEUR	2015 kEUR
Germany	49,848	43,645
European Union	162,276	146,883
Rest	13,337	11,591
	225,461	202,119

b) Other operating income

The main item recognised in other operating income were gains from the sale of land (kEUR 3,591) as well as non-cash exchange gains of kEUR 4,868 (previous year: kEUR 2,540). The land sold continues to be used under leasehold agreements.

c) Expenses for personnel

Expenses for personnel in the amount of kEUR 32,241 (previous year: kEUR 31,378) include expenses for old-age provisions of kEUR 183 (previous year: kEUR 176). Social security contributions include expenses for allocations to pension provisions from the first-time adoption of the BilMOG Act in the amount of kEUR 7.

The table below shows the year-on-year changes in the average number of employees (excluding trainees and managers):

	2016	2015
Salaried workers	296	289
Hourly workers	1,116	1,081
Total	1,412	1,370

d) Other operating expenses

Other operating expenses primarily include freight and sales costs in the amount of kEUR 12,354 (previous year: kEUR 11,928), repair and maintenance costs as well as costs of performance in the amount of kEUR 7,054 (previous year: kEUR 7,824), administrative costs of kEUR 11,230 (previous year: kEUR 9,822) and non-cash exchange losses of kEUR 9,486 (previous year: kEUR 3,515). This item also includes other tax expenses of kEUR 1,004 (previous year: kEUR 776).

e) Financial result

Income from other securities and **loans classified as financial assets** as well as **interest income** result, among other things, from the settlement accounts with the shareholders of the silent partnership in an enterprise as well as from securities and deposits. **Write-downs of financial investments** refer to write-downs of investments classified as current assets in the amount of kEUR 21 (previous year: kEUR 34).

Interest expenses primarily include interest paid on the bond as well as interest on loans granted by the lending banks. The loans granted to Homanit Krosno stem from the proceeds of the bond and serve to finance investments. As the investment measures are largely completed, no construction period interest has been recognised (previous year: kEUR 3,303). The discounting of non-current provisions resulted in expenses of kEUR 204.

f) Income taxes

This item breaks down as follows:

	2016 kEUR	2015 kEUR
Deferred taxes on losses carried forward	–693	249
Deferred taxes from consolidation	187	–17
Deferred taxes resulting from differences between amounts recognised in the commercial balance sheet and amounts recognised in the tax balance sheet	113	–303
Polish income tax	–163	0
Corporate income tax and trade tax from previous years	3	115
Corporate income tax and trade tax in the financial year	–779	–224
	–1,332	–180

Deferred tax assets were recognised for losses carried forward only where corresponding income is projected to be generated.

8. Contingent liabilities and other financial obligations

No **contingent liabilities** exist.

As of the balance sheet date, **other financial obligations** amounted to kEUR 13,086 (previous year: kEUR 8,809). These obligations involve rental and leasing agreements. There is also a liability from plant orders amounting to kEUR 4,289 (previous year: kEUR 7,293).

9. Post balance sheet events

By way of the certificate of incorporation dated February 24, 2017, Homanit GmbH & Co. KG established Homanit Buildings Materials GmbH & Co. KG, Berga, as a wholly-owned subsidiary. The latter acquired the assets for the production of door cores in spring 2017.

For information on the refinancing of the corporate bond, please refer to the management report. No other events that had an extraordinary impact on the net assets, financial position and earnings situation occurred after the reporting date.

10. Other information

The parent company of Homann Holzwerkstoffe GmbH is Fritz Homann GmbH, Herzberg.

Fritz Homann GmbH is registered in the Commercial Register of the Göttingen local court under HRB 201914.

Mr Fritz Homann, Commercial Manager, Munich, is responsible for the conduct of business. No direct advance payments or loans were granted to members of the management. In addition, no contingent liabilities were assumed. The non-disclosure clause pursuant to section 286 para. 4 HGB is applied.

Pension payments of kEUR 10 were made to the widow of a former Managing Director in the fiscal year. The pension provision established for this purpose amounts to kEUR 29.

The fee recognised as an expense in the financial year 2016 pursuant to section 314 para. 1 no. 9 HGB comprises audit services in the amount of kEUR 175 (previous year: kEUR 173), tax advice services in the amount of kEUR 164 (previous year: kEUR 172) as well as other services in the amount of kEUR (previous year: kEUR 2).

The result for the year of the parent company, Homann Holzwerkstoffe GmbH, is to be carried forward to new account.

Herzberg, March 31, 2017

Fritz Homann

AUDIT CERTIFICATE OF THE AUDITOR:

We have audited the consolidated financial statements drawn up by Homann Holzwerkstoffe GmbH, Herzberg, comprising the consolidated balance sheet, consolidated income statement, consolidated notes, consolidated statement of cash flows, consolidated statement of changes in equity, and the Group management report for the financial year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the Group management report in accordance with the provisions of German commercial and company law and the supplementary provisions of the partnership agreement is the responsibility of the company's legal representatives. Our remit is to express an opinion on the consolidated financial statements and the Group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements pursuant to section 317 of the German Commercial Code (Handelsgesetzbuch – HGB) and the generally accepted standards for auditing financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V. – IDW), which require us to plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, prepared in accordance with the German principles of proper accounting, and in the Group management report, are detected with reasonable certainty. Knowledge of the Group's business activities, economic and legal circumstances and expectations concerning possible errors are taken into account when determining the audit activities. The effectiveness of the internal auditing system and the accuracy of the evidence supporting the information contained in the consolidated financial statements and the Group management report are predominantly tested on the basis of random sampling. The audit includes an evaluation of the annual financial statements of the consolidated entities, of the determination of entities to be consolidated, of the accounting and consolidation principles applied and the principal estimates made by the legal representatives, as well as an appraisal of the overall view conveyed by the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Homann Holzwerkstoffe GmbH, Herzberg, for the financial year from January 1, 2016 to December 31, 2016 comply with prevailing legal requirements and the supplementary provisions of the partnership agreement and convey an accurate and fair view of the Group's net assets, financial position and results of operations in keeping with generally accepted accounting principles. Furthermore, the Group management report is in conformity with the consolidated financial statements, complies with prevailing legal requirements, provides an accurate description of the Group's overall position and accurately sets out the risks and opportunities inherent in future developments.

Without qualifying this opinion, we draw attention to the information provided by the management in the risk report of the Group management report. According to this information, the EUR 100 million corporate bond will be due for repayment in December 2017. Management also states that it assumes that the signing of the refinancing agreements and the furnishing of collateral will be completed in the first half of the year but that, should a situation arise where the declarations of intent do not result in signed agreements, the earnings position deteriorates significantly or the current cash flow or credit commitments are insufficient to cover the further refinancing requirements, the continued existence of the Group may be at risk.

Viersen, April 7, 2017

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Hans-Hermann Nothofer	Dipl.-Vw. Peter Kaldenbach
Auditor	Auditor

Business address:
HOMANN HOLZWERKSTOFFE GmbH
Bahnhofstraße 30
37412 Herzberg am Harz

Contact address:
HOMANN HOLZWERKSTOFFE GmbH
Adalbert-Stifter-Straße 39a
81925 München

Phone: +49 (0) 89/99 88 69 0
Fax: +49 (0) 89/99 88 69 21