HOMANN
HOLZWERKSTOFFE

Annual Report 2019
Homann Holzwerkstoffe GmbH

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Homann Holzwerkstoffe GmbH

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FOREWORD

Dear Reader,

While our look back on a successful year 2019 is clouded by the current economic crisis, the increase in revenues and the noticeable improvement in earnings mean that we are financially well equipped for the challenges that lie ahead.

In adjusted terms, revenues of Homann Holzwerkstoffe Group increased by 3.8% to EUR 273.8 million in the financial year 2019. The most important output regions for our thin, refined HDF and MDF boards were the countries of the European Union, where revenues picked up by 2.5%, and Germany (+4.8%). Revenues in the other foreign countries remained stable compared to the previous year. The increase in revenues enabled us to further expand our position as the European market leader in our segment.

Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), which is our most important earnings indicator, improved by an impressive 19.5% to EUR 47.1 million in the financial year 2019. As a result, our EBITDA margin climbed from 14.5% in the previous year to 17.1% in 2019. Consolidated net income for the year, which increased to EUR 22.0 million, also led to a further improvement of our balance sheet ratios, with the equity ratio rising to 18.3%.

Overall, we are satisfied with the course of business in 2019 and would like to thank our customers, business partners and investors for the confidence placed in us. Our special thanks go to our employees, without whose commitment we would not have performed in such a good way.

The current financial year 2020 started as positively as the old year ended, until the global coronavirus crisis also hit our industry in the course of March. It is currently difficult to predict what effects the supply bottlenecks and order freezes will have on our business performance in 2020. We have implemented all reasonable measures to reduce our cost base – including the application for short-time work at our plants in Germany and Poland – and plan to get through the crisis without making any significant staff cuts.

Another clear indication of our confidence is the fact that we will maintain the planned investments in the Group's existing plants and our investment project in Lithuania in order to be able to satisfy the demand for our products in an even more customer-oriented manner in the medium term.

In view of the solid assets and financial position, Homann Holzwerkstoffe Group considers itself well positioned to cope with the negative effects of the economic crisis and to continue pursuing its strategic ambitions.

We look forward to continuing on our successful path together with you.

Yours sincerely,

Fritz Homann
Managing Director of Homann Holzwerkstoffe GmbH

GROUP MANAGEMENT REPORT 2019

A. Fundamentals of the Group

Group structure and business model

Homann Holzwerkstoffe Group specializes in the production and sale of thin, refined wooden fibreboards (HDF/MDF). The Group is one of the leading European suppliers and primarly serves the furniture and door industries. In organizational terms, the Group consists mainly of Homann Holzwerkstoffe GmbH as the parent company and three operating companies held by Homanit Holding GmbH. Homanit GmbH & Co. KG produces in Germany at the Losheim am See site, and the two Polish subsidiaries, Homanit Polska Sp. z o.o. i. K. and Homanit Krosno Odranskie Sp. z o.o., produce at the Karlino and Krosno locations, respectively.

The Group covers all relevant production steps from the manufacture of the raw board to the refined end product. This provides direct control over all process steps and thus guarantees high product quality. Continuous product development is driven forward in the context of the company's research and development activities.

To continuously further develop the Group, UAB Homanit Lietuva was established in the course of the financial year 2019. It is planned to build the Group's fourth plant here in the coming years in order to be able to meet the demand for products in an even more customer-oriented manner.

B. Economic report

1. Economic environment

Macroeconomic situation

The year 2019 was marked by growing geopolitical tensions and trade policy uncertainties. According to the International Monetary Fund (IMF), global economic growth thus dropped to 2.9%, down from 3.6% in 2018 At 3.7% (2018: 4.5%), the emerging markets and developing countries continued to record above-average growth in the year under review, including Poland with 4.0% (2018: 5.1%) growth as an important production location of Homann Holzwerkstoffe. The eurozone economy grew by 1.2% (2018: 1.9%), whereas economic growth in Germany was only 0.5% (2018: 1.5%), according to the IMF. The weakness of the German manufacturing sector was the main reason for the moderate growth in Germany. Moreover, the decline in world trade had a negative effect on German exports. The country's economy was hit particularly hard by the declining demand for capital goods and automobiles.[2]

In contrast, consumption had a supporting effect in 2019 according to the Federal Statistical Office. Private consumer spending was up 1.6% on 2018, while government spending rose by 2.5%.[3]

Sector developments

The German furniture industry declined slightly in 2019. The Association of the German Furniture Industry (VDM), for instance, projects an 0.5% decline in revenues to EUR 18 billion. In the first ten months, the German furniture industry was primarily stimulated by demand from abroad. The upward trend here reflects the international appreciation of German furniture. At 32.8%, the export share reached a record level.[4]

Among the sub-sectors, kitchen furniture was the only segment to record an increase in revenues, which picked up by 2.8%. The "other furniture" segment, which includes living room, dining room and bedroom furniture as well as small pieces of furniture, non-upholstered seating furniture and furniture parts, posted a year-on-year drop in revenues of 3.2%. The office furniture segment declined by a slight -0.2%.[5]

According to Statista, total revenues in the European furniture industry increased by 2.2% to EUR 342 billion in 2019. Especially the office furniture segment grew by a strong 3%. The living room and dining room furniture (+2.5%) as well as the bedroom furniture (+2.3%) segments also recorded positive growth rates. Revenues in the kitchen furniture segment rose by 1.7%. Only the plastic furniture segment in Europe declined by 1.2%.[5]

On the European market, France, the most important importer of German furniture, recorded a positive market trend. The volume of German exports to France rose by 7.2% to EUR 1.63 billion. According to market research institute Ipea, the French furniture market had a total volume of EUR 13.4 billion, up 4.1% on the previous year. Exports from Germany to Italy also grew significantly by 6.3% to EUR 380.3 million. In the past financial year, exports to Poland also increased by 3.3% to EUR 545.9 million. Poland remains one of the most dynamic furniture markets in the European

[1] IWF 2020
[2] BMWI 2020
[3] Federal Statistical Office 2020
[4] VDM Press Conference at imm cologne 2020
[5] Statista Furniture Europe

Union; as the biggest (most important) output market for Homanit, it consolidated its position as one of the world's largest furniture export countries.

In retrospect, 2019 was a difficult year for manufacturers of MDF and HDF boards. According to information and news service EUWID, demand for MDF and HDF boards declined. As a result, the pressure on prices and costs intensified as the year progress and could not be mitigated in the second half of the year.[6] The market segment for thin and refined boards with thicknesses of up to 3 mm, on which the Homann Group focuses, is characterized by a balanced competitive situation. In spite of additional capacities, this market segment is relatively balanced.

2. Financial and non-financial performance indicators

Revenues and EBITDA are the Group's financial performance indicators. They reflect the success of the Group's business activities. In the financial year 2019, Homann Holzwerkstoffe Group generated revenues of EUR 273.8 million (previous year: EUR 269.3 million; previous year adjusted: EUR 263.7 million). The Group reported EBITDA of EUR 47.6 million (previous year: EUR 35.3 million), while EBITDA adjusted for one-time effects from exchange rate fluctuations and the costs of the discontinuation of the insulation materials division in the previous year amounted to EUR 47.1 million (previous year: EUR 39.4 million). EBITDA of EUR 47.6 million achieved in the financial year correspond to an EBITDA margin of 17.4%.

In the following, we present facts that are important for understanding the development of the business and the Group's position as a whole. We have refrained from presenting non-financial performance indicators in accordance with section 315 para. 3 of the German Commercial Code (HGB) as they are of minor importance for the Group.

[6] EUWID Wood products and panels 2019-2020

3. Business development and the Group's position

Earnings position

Revenues in the financial year rose by 1.7 % year-on-year from EUR 269.3 million to EUR 273.8 million, adjusted for the previous year's sales of the insulation materials division of EUR 5.5 million by 3.8 %, with an equally increased sales volume. The share of refined products again showed a positive trend due to good demand. While revenues in the European Union rose by approx. 2.5%, adjusted revenues in Germany were up by 4.8%. In other foreign countries, they remained almost unchanged.

Other operating income mainly includes exchange rate gains of EUR 2.3 million (previous year: EUR 1.7 million). In addition, income of EUR 1.5 million and EUR 0.7 million, respectively, was generated from the reversal of impairment losses on receivables and from carbon trading.

Due in particular to low raw material costs for wood and glue, the cost of materials as a percentage of total output was reduced by 2.4 percentage points to 54.8% compared to the previous year.

At 15.5%, the personnel expenses ratio was slightly up on the previous year's 15.0%. The average number of employees remained almost unchanged at 1,484 (previous year: 1,498).

Other operating expenses declined from EUR 43.5 million to EUR 39.6 million. Adjusted for the other operating expenses of EUR 5.1 million of the insulation materials division, which was closed in the previous year, other operating expenses increased by EUR 1.2 million or 3.1%.

Overall, reported EBITDA rose from EUR 35.3 million in the previous year to EUR 47.6 million. This was mainly achieved by improving the cost of materials ratio, stable market prices as well as the absence of negative impacts from one-time effects.

Adjusted for one-time effects from exchange rate fluctuations in the financial year as well as for the costs of the discontinuation of the insulation materials division in the previous year, operating EBITDA amounted to EUR 47.1 million, compared to EUR 39.4 million in the previous year. The Group's budget was thus exceeded.

Interest expenses decreased from EUR 7.9 million to EUR 7.2 million, mainly due to the scheduled repayments made in the financial year. While the previous year's financial result was adversely effected by one-off write-downs on financial assets, no such effect occurred in the financial year, which led to a significant improvement in the financial result.

Consolidated net income for the year totalled EUR 22.0 million (adjusted: EUR 21.5 million). This represents a significant increase on the previous year's EUR 7.9 million (adjusted: EUR 16.8 million).

Assets position

Total assets fell by EUR 15.0 million from EUR 261.1 million in the previous year to EUR 246.1 million.

In the financial year, investments in fixed assets amounting to EUR 13.4 million (previous year: EUR 13.9 million) were made, primarily in the optimization of finishing aggregates, internal transports as well as fire protection. Taking into account depreciation/amortization, asset disposals, exchange rate differences and changes in the basis of consolidation, fixed assets decreased by EUR 2.7 million from EUR 165.3 million to EUR 162.6 million.

Inventories were reduced slightly to EUR 34.2 million (previous year: EUR 35.2 million). Receivables and other assets declined sharply from EUR 33.4 million to EUR 16.1 million, mainly because of the reduction in receivables from shareholders by offsetting them with dividends.

Equity increased further to EUR 45.1 million (previous year: EUR 38.4 million), primarily due to the fact that consolidated net income for the year exceeded the dividend payments. The equity ratio thus climbed to 18.3% (previous year: 14.7%).

While provisions rose slightly year-on-year from EUR 7.7 million to EUR 8.8 million, liabilities declined from EUR 215.0 million to EUR 191.9 million. The reduction in liabilities is mainly attributable to a decrease in liabilities to banks by EUR 16.6 million to EUR 95.8 million resulting from the repayment of loans and lease obligations as well as lower utilization of overdraft facilities.

Financial position

Cash flow from operating activities amounted to EUR 40.9 million in the financial year (previous year: EUR 27.0 million). This was offset by cash outflows from investing activities in the amount of EUR 12.3 million (previous year: EUR 13.8 million) and net cash outflows from financing activities of EUR 16.4 million (previous year: EUR 14.2 million). Cash inflows from new borrowings of EUR 2.5 million were offset by repayments made as well as interest and taxes paid of EUR 18.9 million. Receivables from shareholders were fully offset against dividends in the financial year.

As of December 31, 2019, the company had cash and securities in the amount of EUR 30.1 million (previous year: EUR 20.1 million). In accordance with DRS 21, liabilities to banks agreed at short notice amounting to EUR 26.0 million (previous year: EUR 29.4 million) were included in total cash and cash equivalents. This results in cash and cash equivalents of EUR 4.1 million (previous year: EUR -8.3 million).

Overall, management considers the assets, financial and earnings position to be stable.

C. REPORT ON EXPECTED DEVELOPMENTS, OPPORTUNITIES AND RISKS

1. Expected developments

Macroeconomic developments

In the course of the worldwide spread of the coronavirus SARS-CoV-2, a slump in the world economy will be inevitable in 2020. According to the economic forecast published by the ifo Institute (Leibniz Institute for Economic Research at the University of Munich) on March 19, it is impossible to precisely predict the economic costs at the present time.

In model calculations, which assume that the adverse effects of the coronavirus pandemic on the countries affected will last for only about three months and that there will then be noticeable catch-up effects, the ifo Institute now only expects the world economy to grow by a slight 0.1%. By contrast, real gross domestic product is expected to decline by 1.0% in the industrialized countries and by as much as 1.6% in the eurozone. The German economy is expected to contract by 1.5%, which means that the forecast has been reduced by 3 percentage points compared to the outlook without the coronavirus pandemic. According to the calculations, the Polish economy will grow by 0.8%.

The experts emphasize, however, the high downside risk to this forecast. The crisis could last much longer if the pandemic cannot be contained or if economic activities are resumed at a slower pace. This would have enormous effects on the global economy. Each month in which production is cut by a quarter would reduce global economic growth by more than 2% per year.[7]

[7] ifo Economic Forecast Spring 2020

Sector developments

At the beginning of the year, i.e. before the outbreak of the coronavirus pandemic, the Association of the German Furniture Industry predicted a slight 1% increase in revenues for 2020.[8] In March 2020, however, it was already assumed that the industry's economic situation would deteriorate in the coming weeks as a result of the pandemic, which may affect both the supply of parts to the domestic market and the general demand for furniture.[9]

According to Statista, revenues in the European furniture market were expected to grow by 2.0% in 2020, excluding the effects of the coronavirus pandemic.[10] In view of the current economic crisis, these forecasts can no longer be sustained. So far, only a small number of new forecasts have been published. In an optimistic scenario, B+R Studio Furniture Market Analysis expects revenues of the Polish furniture industry to decline by 35% compared to the previous year. Such a scenario would occur if the spread of the virus in Poland and other European countries were to slow down from June at the latest and furniture stores were to reopen. The market development in the respective countries depends, on the one hand, on the extent to which they are affected by the pandemic and, on the other hand, on the economic restrictions associated with the pandemic, which may be influenced by politics.

The market for MDF and HDF boards recorded more orders again at the beginning of the year. The improved capacity utilization of the manufacturers may also result in a better starting position for future price negotiations with customers.[11] Moreover, the trend towards lightweight construction in the furniture industry continues. It is expected, however, that the coronavirus pandemic will also affect the MDF/HDF market.

[8] VDM Press Conference at imm cologne 2020
[9] VDM Press Release dated March 23, 2020
[10] Statista August 2019
[11] EUWID 2020

2. Opportunities and risks

Opportunities arise from the trend towards lightweight construction in the furniture industry and the resulting demand for the Group's products. As a result of the constant replacement and rationalization investments, the production facilities are state-of-the-art. This provides the opportunity to consistently increase the capacity of the existing plants.

Sales and revenue risks exist above all in connection with a possible worsening in general economic performance, resulting in a decrease in demand, and from competition with other manufacturers, which could result in price drops or market share losses in the future. Risks also exist in connection with the loss of key accounts.

In this context, there are also risks resulting from possible macroeconomic consequences of the coronavirus pandemic. With regard to the business activities of Homann Holzwerkstoffe Group, various risks exist, e.g. employees may become ill, which could have negative effects on the operational production processes. Disruptions in the supply chain for required input factors as well as disruptions in logistics and in sales channels on the customer side may occur. To the extent possible, the Group has taken essential precautions and preparations to reduce the probability of the risks occurring and/or their negative financial consequences.

Risks to the Group's earnings exist in connection with possible cost increases. In the sphere of energy policy, we expect the existing rules and subsidies for energy-intensive companies (the renewable energy levy) to remain in effect. Where raw materials are concerned, fluctuations in the price of wood and other materials, such as glue, could result in higher costs. While the Group intends to pass on such price increases to customers, such increases may temporarily affect earnings, particularly if prices go up at short notice. Moreover, the Group's ability to increase prices will be affected by the competitive situation.

With regard to personnel, the Group has long-term relationships with qualified employees. Risks may arise if the Group is unable to find qualified employees to replace departing specialists or to fill newly created jobs, or if costs increase due to the shortage of skilled workers. As a result, automation is expected to play a more important role in the future.

Financing risks exist in the event that the Group is unable to meet financial covenants in the future, or that it is unable to renew its credit lines upon expiration.

Moreover, the Polish sites are exposed to market risk due to possible changes in exchange rates.

3. Outlook and strategic plans

All of the Group's plants performed well in 2019. In the first quarter of 2020, the market for thin fibreboards in the core countries supplied by the Group remained stable. Due to the outbreak of the coronavirus pandemic and the related restrictions, which also affect the supply chain and the output markets of Homann Holzwerkstoffe Group, the outlook for the rest of 2020 is subject to very high uncertainties.

If the restrictions affecting the customer industries are limited to a few weeks, management expects revenues to decline moderately and EBITDA to reach the level of 2018. If the restrictions persist for a longer period of time and a slow recovery does not begin before the third quarter, the decline and the impact on revenues and EBITDA will be more significant. We have adjusted our budget for 2020 to such a scenario. Even in the event that the corona crisis will cause severe negative effects, we are well positioned to absorb them thanks to our stable assets and financial position.

Munich, April 24, 2020

Fritz Homann | Ernst Keider

CONSOLIDATED BALANCE SHEET

of Homann Holzwerkstoffe GmbH, Munich as of December 31, 2019

ASSETS

	Item Comment	Dec. 31, 2019 EUR	Dec. 31, 2018 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		1,956,729.52	2,802,570.32
2. Advance payments made		142,464.00	0.00
		2,099,193.52	**2,802,570.32**
II. Tangible assets	6.a.		
1. Properties, rights equivalent to real property and structures including structures on third-party properties		44,184,263.16	44,978,354.48
2. Technical equipment and machinery		103,873,599.89	102,301,084.89
3. Other property, plant and equipment		5,912,964.25	6,228,517.08
4. Advance payments made and work in progress		6,523,282.89	8,386,613.98
		160,494,110.19	**161,894,570.43**
III. Financial assets	6.b.		
1. Shares in affiliated companies		0.00	11,628.91
2. Equity investments		15,178.50	607,324.50
		15,178.50	**618,953.41**
		162,608,482.21	**165,316,094.16**
B. Current assets			
I. Inventories			
1. Raw materials and supplies		19,948,381.65	21,801,196.10
2. Unfinished goods		5,114,874.95	3,766,740.65
3. Finished goods		9,013,460.13	9,385,839.43
4. Advance payments made		96,911.90	270,572.79
		34,173,628.63	**35,224,348.97**
II. Receivables and other assets	6.c.		
1. Trade receivables		2,480,399.72	1,520,887.89
2. Receivables from affiliated companies		0.00	142,671.25
3. Receivables from shareholders		0.00	14,067,633.46
4. Other assets		13,645,620.60	17,711,683.96
		16,126,020.32	**33,442,876.56**
III. Investments classified as current assets	6.d.	2,118,700.66	2,646,948.82
IV. Cash holdings, bank deposits and cheques		29,579,521.46	20,323,022.74
		81,997,871.07	**91,637,197.09**
C. Accrued items	6.c.	1,278,422.96	1,234,744.91
D. Deferred tax assets	6.e.	0.00	2,568,000.00
E. Assets arising from the overfunding of pension obligations	6.f.	175,708.23	368,975.62
		246,060,484.47	**261,125,011.78**

LIABILITIES

	Item Comment	Dec. 31, 2019 EUR	Dec. 31, 2018 EUR
A. Equity	6.g.		
I. Subscribed capital		25,000,000.00	25,000,000.00
II. Capital reserves		25,564.60	25,564.60
III. Other profit reserves		248,801.80	138,000.01
IV. Equity difference from currency conversion		-8,301,592.59	-8,537,922.85
V. Consolidated retained earnings		28,082,742.28	21,812,070.76
		45,055,516.09	**38,437,712.52**
B. Provisions	6.h.		
1. Provisions for pensions and similar obligations		2,769,719.00	2,393,588.00
2. Provisions for taxes		964,799.73	1,349,622.37
3. Other provisions		5,107,646.74	3,983,853.47
		8,842,165.47	**7,727,063.84**
C. Liabilities	6.i.		
1. Bonds		60,000,000.00	60,000,000.00
2. Silent partnership		4,000,000.00	4,000,000.00
3. Advance payments received		467,000.00	0.00
4. Liabilities to financial institutions		95,800,582.05	112,354,004.51
5. Trade payables		23,074,484.98	29,154,285.79
6. Liabilities to affiliated companies		0.00	15,848.60
7. Other liabilities		8,519,868.93	9,436,096.52
		191,861,935.96	**214,960,235.42**
D. Accrued items		6,866.95	0.00
E. Deferred tax liabilities	6.j.	294,000.00	0.00
		246,060,484.47	**261,125,011.78**

CONSOLIDATED INCOME STATEMENT

Homann Holzwerkstoffe GmbH, Munich
for the period from January 1, 2019 to December 31, 2019

	Item Comment	2019 EUR	2018 EUR
1. Revenues	7.a	273,771,609.10	269,268,242.45
2. Increase in inventory of finished and unfinished goods		1,083,867.67	1,303,573.51
3. Other own work capitalized		1,018,786.91	919,058.10
4. Other operating income	7.b	5,482,229.94	3,161,119.14
		281,356,493.62	**274,651,993.20**
5. Cost of materials			
a) Cost of raw materials and consumables and goods for resale		-131,979,835.37	-134,535,872.61
b) Cost of purchased services		-19,236,228.25	-20,775,276.19
		-151,216,063.62	-155,311,148.80
Gross profit		**130,140,430.00**	**119,340,844.40**
6. Expenses for personnel	7.c		
a) Wages and salaries		-36,150,976.88	-33,962,407.53
b) Social security, pensions and other benefits		-6,729,192.22	-6,637,047.45
		-42,880,169.10	-40,599,454.98
7. Depreciation and amortization of intangible and tangible fixed assets		-16,299,671.46	-16,917,569.61
8. Other operating expenses	7.d	-39,645,925.41	-43,457,589.81
Operating result		**31,314,664.03**	**18,366,230.00**
9. Income from investments		0.00	57,010.35
10. Other interest and similar income		928,710.27	1,368,481.22
11. Write-down of financial investments and investments classified as current assets		-14,691.03	-4,910,967.42
12. Interest and similar expenditure		-7,193,718.60	-7,942,514.34
Financial result	7.e	**-6,279,699.36**	**-11,427,990.19**
13. Income taxes	7.f	-3,019,313.93	960,610.74
14. Earnings after taxes / consolidated net income		**22,015,650.74**	**7,898,850.55**

CONSOLIDATED STATEMENT OF CASH FLOWS

Homann Holzwerkstoffe GmbH, Munich
for the period from January 1, 2019 to December 31, 2019

		2019 kEUR	2018 kEUR
	Consolidated result	**22,016**	**7,899**
+/–	Depreciation of assets	16,300	16,918
–/+	Profit/loss from the disposal of fixed assets	63	235
–/+	Other non-cash expenses/income	-4,374	-3,158
–/+	Increase/decrease in inventories	1,050	-3,817
–/+	Increase/decrease in trade receivables	-879	-460
–/+	Increase/decrease in receivables from affiliated companies / shareholders	142	-113
–/+	Increase/decrease in other assets	7,041	-4,351
+/–	Increase/decrease in provisions	1,114	1,199
+/–	Increase/decrease in trade payables	-6,081	400
+/–	Increase/decrease in liabilities to affiliated companies	-145	5,533
+/–	Increase/decrease in other liabilities	-171	-2,399
+/–	Income tax expenses/income	3,019	-961
+/–	Interest expenses/interest income	2,854	6,689
+/–	Currency-related change in assets/liabilities	-1,094	3,363
=	**Cash flow from operating activities**	**40,855**	**26,977**
+	Proceeds from the disposal of tangible assets / intangible assets	1,274	86
–	Cash paid for investments in tangible assets/intangible assets	-13,354	-13,856
–	Cash paid for additions to the scope of consolidation	-243	0
=	**Cash flow from investing activities**	**-12,323**	**-13,770**
+	Cash received from raising borrowings	2,500	10,000
–	Cash paid for the redemption of borrowings	-15,624	-16,592
–	Profit distribution to the shareholders	-15,745	-4,000
+	Proceeds from the repayment of shareholder loans	15,745	2,148
–	Interest paid	-2,854	-6,689
+	Income taxes paid/refunded	-433	961
=	**Cash flow from financing activities**	**-16,411**	**-14,172**
	Change in cash and cash equivalents	12,121	-965
	Change in cash funds from consolidation	293	-219
+	Cash and cash equivalents at the beginning of the period	-8,311	-7,127
=	**Cash and cash equivalents at the end of the period**	**4,103**	**-8,311**

Composition of cash and cash equivalents	**Dec. 31, 2019 TEUR**	**Dec. 31, 2018 TEUR**
Cash	29,579	20,323
Securities	521	792
Liabilities to banks agreed at short notice	-25,997	-29,426
	4,103	**-8,311**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Homann Holzwerkstoffe GmbH, Munich
for the period from January 1, 2019 to December 31, 2019

	Subscribed capital EUR	Capital reserves EUR	Other profit reserves EUR	Equity difference from currency conversion EUR	Consolidated retained earnings EUR	Equity EUR
January 1, 2018	25,000,000	25,565	103,811	-7,285,173	17,913,220	35,757,423
Profit distribution to the shareholders	0	0	0	0	-4,000,000	-4,000,000
Currency exchange differences	0	0	0	-1,252,750	0	-1,252,750
Badwill	0	0	34,189	0	0	34,189
Consolidated net income	0	0	0	0	7,898,851	7,898,851
December 31, 2018 / January 1, 2019	25,000,000	25,565	138,000	-8,537,923	21,812,071	38,437,713
Profit distribution to the shareholders	0	0	0	0	-15,744,979	-15,744,979
Currency exchange differences	0	0	0	236,330	0	236,330
Badwill	0	0	110,802	0	0	110,802
Consolidated net income	0	0	0	0	22,015,651	22,015,651
December 31, 2019	25,000,000	25,565	248,802	-8,301,593	28,082,742	45,055,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Homann Holzwerkstoffe GmbH, Munich
for the period from January 1, 2019 to December 31, 2019

1. Preparation of the consolidated financial statements

The consolidated financial statements of Homann Holzwerkstoffe GmbH (HHW) as of December 31, 2019 have been prepared in accordance with the requirements of the German Commercial Code (HGB) applicable to consolidated financial statements. 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 organized according to the total cost accounting method (Gesamtkostenverfahren; section 275 para. 2 HGB), other taxes are shown under other operating expenses.

HHW is entered in the Commercial Register of the Munich local court under HRB 240650.

2. Consolidated companies

Aside from Homann Holzwerkstoffe GmbH, the following twelve subsidiaries were included in the consolidated financial statements as of December 31, 2019 as fully consolidated companies:

No.	Company	Equity share	Held by	Equity Dec. 31, 2019	Net profit/loss 2019
		%	No..	kEUR	kEUR
1	Homann Holzwerkstoffe GmbH, München			26,194	16,186
2	HOMANIT Holding GmbH, Munich	100.00	1	62,620	11,703
3	Homanit GmbH & Co. KG, Losheim	100.00	2	34,073	11,406
4	Homanit Verwaltungsgesellschaft mbH, Losheim	100.00	3	36	1
5	Homanit France SARL, Schiltigheim	100.00	3	26	2
6	Homanit Polska Sp. z o.o., Spolka	99.99	3		
	Kommandytowa, Karlino	0.01	7	82,767	18,196
7	Homanit Polska Sp. z o.o., Karlino	100.00	3	850	153
8	Homatrans Sp. z o.o., Karlino	100.00	6	1,182	-148
9	Homanit Krosno Odranskie Sp. z o.o., Krosno	100.00	2	5,521	7,066
10	Homatech Polska Sp. z o.o., Karlino	100.00	6	339	98
11	Homanit International GmbH, Munich	100.00	1	259	-3
12	UAB Homanit Lietuva, Pagiriu	100.00	2	-169	-269
13	HOPE Investment Sp. z o.o., Poznan	100.00	6	154	32

The annual results for nos. 1 to 4 and 7 also include corresponding investment income.

UAB Homanit Lietuva, which was established to build up the Group's fourth production facility, and HOPE Investment Sp. z o.o. were included in the consolidated financial statements for the first time as of July 1, 2019. The first-time inclusion of UAB Homanit Lietuva in the consolidated financial statements did not result in any capitalized difference; the inclusion of HOPE Investment Sp. z o.o. resulted in a capitalized difference on the liabilities side of kEUR 111, which was recognized in Group reserves due to its nature.

3. Consolidation principles

Capital consolidation is performed by offsetting the carrying amount of investments in Group companies against the proportionate balance sheet equity at the time of initial inclusion (book value method). The consolidated financial statements do not show any goodwill from capital consolidation. Badwill is recognized 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. The consolidated financial statements were prepared based on the assumption that the company will continue as a going concern.

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 prepared 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. The equity included in capital consolidation is translated at historical rates. Rate differences from the translation of subscribed capital as well as profit carried forward from subsequent consolidation are recognized in Group reserves. The differences from translation of annual results at average rates are recognized 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 recognized in Group reserves with no effect on profit or loss.

5. Accounting policies

HHW's accounting policies also apply to the consolidated financial statements. Annual financial statements prepared 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. Intangible assets are typically depreciated based on a useful life of 2-8 years.

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, including debt interest accruing during the construction period. Amortization 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 amortization or depreciation than the declining balance method. The useful life of land, leasehold rights and buildings, including buildings on unowned land, is 10-75 years, the useful life of technical equipment and machinery and the useful life of fixtures, fittings and equipment is 2-15 years.

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. **Finished** and **unfinished goods** are measured at 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 recognized at nominal values. Individual impairments are undertaken for individual risks. Foreign-currency receivables are recognized at the time of acquisition using the exchange rate in effect on the transaction date. On the balance sheet date, foreign-currency receivables are measured using the spot exchange rate on that date, with due regard for the realization and acquisition cost principle.

Investments classified as current assets are recognized 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 as of the reporting date in accordance with section 256a HGB.

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

The right to elect to capitalize **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 recognition of the **assets arising from the overfunding of pension obligations**, 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.

Other provisions take into account all discernible risks and contingent liabilities pursuant to section 253 para. 1 sentence 2 HGB and are recognized in the amount necessary for settlement based on reasonable commercial assessment, with due regard for the expected future changes in prices and costs. Provisions with residual terms of more than one year are discounted using the average market interest rate specified by Deutsche Bundesbank for the same maturity. **Anniversary provisions** and **early retirement provisions** are calculated using actuarial methods based on the “2018 G” tables of Prof. Dr. Klaus Heubeck, applying an actuarial interest rate of 1.97%.

Liabilities are recognized 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 realization, imparity and acquisition cost principle if the remaining term exceeds one year.

6. Notes to the consolidates balance sheet

a) Fixed asseds

	Cost of purchase/manufacture							Depreciation/impairments				Book value	
	Jan. 1, 2019	Reclassi-fications	Additions	Change in the scope of consolidation	Disposals	Currency exchange differences	Dec. 31, 2019	Additions	Disposals	Currency exchange differences	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets													
1. Concessions acquired against payment, commercial trademark rights and similar rights and assets as well as licenses to such rights and assets	6,788,529.02	0.00	168,964.00	0.00	0.00	9,839.58	6,967,332.60	1,021,336.78	0.00	3,307.60	5,010,603.08	1,956,729.52	2,802,570.32
2. Advance payments made	0.00	0.00	142,464.00	0.00	0.00	0.00	142,464.00	0.00	0.00	0.00	0.00	142,464.00	0.00
	6,788,529.02	0.00	311,428.00	0.00	0.00	9,839.58	7,109,796.60	1,021,336.78	0.00	3,307.60	5,010,603.08	2,099,193.52	2,802,570.32
II. Tangible assets													
1. Properties, rights equivalent to real property and structures including structures on third-party properties	76,349,795.67	226,533.13	1,162,665.13	1,818.48	-201.73	512,462.11	78,253,072.79	2,548,859.61	-90.93	148,599.76	34,068,809.63	44,184,263.16	44,978,354.48
2. Technical equipment and machinery	188,858,993.12	5,033,714.67	6,681,302.00	0.00	-241,325.39	1,577,179.21	201,909,863.61	10,935,985.31	-181,380.13	723,750.31	98,036,263.72	103,873,599.89	102,301,084.89
3. Other property, plant and equipment	17,519,267.85	61,288.12	1,586,060.78	0.00	-942,448.75	91,288.95	18,315,456.95	1,793,489.76	-743,263.36	61,515.53	12,402,492.70	5,912,964.25	6,228,517.08
4. Advance payments made and work in progress	8,386,613.98	-5,321,535.92	3,114,322.32	253,217.49	13,904.72	76,760.30	6,523,282.89	0.00	0.00	0.00	0.00	6,523,282.89	8,386,613.98
	291,114,670.62	0.00	12,544,350.23	255,035.97	-1,170,071.15	2,257,690.57	305,001,676.24	15,278,334.68	-924,734.42	933,865.60	144,507,566.05	160,494,110.19	161,894,570.43
III. Financial assets													
1. Shares in affiliated companies	11,628.91	0.00	500,000.00	-11,628.91	-500,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11,628.91
2. Equity investments	607,324.50	0.00	0.00	0.00	-592,146.00	0.00	15,178.50	0.00	0.00	0.00	0.00	15,178.50	607,324.50
	618,953.41	0.00	500,000.00	-11,628.91	-1,092,146.00	0.00	15,178.50	0.00	0.00	0.00	0.00	15,178.50	618,953.41
	298,522,153.06	0.00	13,355,778.23	243,407.06	-2,262,217.15	2,267,530.15	312,126,651.35	16,299,671.46	-924,734.42	937,173.20	149,518,169.13	162,608,482.21	165,316,094.16

b) Financial assets

In the previous year, shares in affiliated companies related to the shares (100%) in HOPE Investment Sp. z o.o. Poznan and the shares (100%) in HBG Holzbaustoffe GmbH. These companies were not consolidated in 2018 as they were of minor importance.

In the previous year, the **equity investments** related to DHN Transportmittel GmbH & Co. KG as well as its general partner. The Group held 50% of the shares in each company. These companies were also not consolidated as they were of minor importance.

In the financial year, the shareholders decided to liquidate the general partner; the net assets of DHN Transportmittel GmbH & Co. KG were distributed to the shareholders after the sale and fulfilment of the payment obligations.

c) Receivables, other assets, prepaid expenses

There are no residual terms of more than one year for receivables (previous year: kEUR 14,068 for receivables from shareholders); residual terms of more than one year exist for other receivables in the amount of kEUR 3,682 and for deferred items in the amount of kEUR 44.

In the previous year, **receivables from shareholders** involved the interest-bearing clearing accounts with VVS GmbH and Fritz Homann GmbH, which were repaid in the financial year 2019; the profit distribution of kEUR 15,745 served this purpose.

In the previous year, **receivables from affiliated companies** were 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 recognized in **other assets** include an investment in a limited partnership (kEUR 3,675; previous year: kEUR 3,579), tax refund claims amounting to kEUR 6,779 (previous year: kEUR 10,701) as well as receivables from factoring companies amounting to kEUR 1,703 (previous year: kEUR 2,518).

Accrued items primarily include the prepaid expenses from rental and leasing payments of kEUR 107 (previous year: kEUR 301) as well as insurance contributions for the time after December 31, 2019.

d) Other securities

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

	Dec. 31, 2019 kEUR	Dec. 31, 2018 kEUR
Corporate bond of Homann Holzwerkstoffe GmbH	1,598	1,856
Other fund shares	521	791
	2,119	2,647

e) Deferred tax assets

Deferred tax assets are not reported as of the balance sheet date December 31, 2019; please refer to item 6.j) Deferred tax liabilities.

f) Assets arising from the overfunding of pension obligations

Please refer to the explanations under item 6.h).

g) Equity

Subscribed capital, reserves and consolidated retained earnings are recognized as **equity**. Pursuant to commercial register entries, the following shareholder relationships existed as of December 31, 2019:

	kEUR	%
Fritz Homann GmbH	20,000	80,00
VVS GmbH	5,000	20,00
	25,000	100,00

Other profit reserves resulted from the change of accounting rules implemented as a result of the German Accounting Modernization Act (BilMoG) in the amount of kEUR 22 and from the differences on the liabilities side from capital consolidation in the amount of kEUR 116. Differences on the liabilities side from first-time consolidation relate to Homanit International (kEUR 34), HOPE Investment Sp. z o.o. (kEUR 111), Homatrans (kEUR 80) and Homanit Verwaltungs GmbH (kEUR 2). They arose exclusively from retained earnings from the period prior to the first-time consolidation. If the shares in these companies are sold, the differences on the liabilities side are reversed to increase profits.

The **difference in equity resulting from currency conversion** changed from kEUR -8,538 to kEUR -8,302 due to the development of the PLN against the EUR.

Consolidated retained earnings developed as follows:

	EUR
Consolidated retained earnings as of January 1, 2019	21,812,070.76
Profit distribution	-15,744,979.22
Consolidated net income	22,015,650.74
Consolidated retained earnings as of December 31, 2019	28,082,742.28

Sums in the amount of kEUR 359 (previous year: kEUR 385) cannot be distributed pursuant to section 253 para. 6 sentence 1 HGB and due to first-time application of the German Accounting Modernization Act (BilMoG). In the consolidated balance sheet as of December 31, 2018, equity was presented with seven sub-items; the last three of these items were combined to the consolidated retained earnings. The presentation for 2018 was adjusted accordingly.

h) Provisions

The projected unit credit method for the **pension provisions** 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 “2018 G” tables of Prof. Dr. Klaus Heubeck. The calculation was based on the following assumptions:

	Dec. 31, 2019
Interest rate at the beginning of the financial year	3.21%
Interest rate at the end of the financial year	2.71%
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, 2019, an amount of kEUR 33 from the first-time adoption of the German BilMoG Act had not yet been recognized in pension provisions. Furthermore, there was a difference of kEUR 326 pursuant to section 253 para. 6 sentence 1 HGB. The pension obligation would have to be increased by this amount if the average interest rate of the past seven years (1.97%) were chosen.

The **tax provisions** include settlement arrears from trade and corporate tax payment obligations for 2019 as well as from previous years primarily as a result of tax audits.

Other provisions primarily involve obligations to employees (e.g. vacations, profit shares, overtime, contributions to professional associations), warranty and bonus obligations to customers and imminent losses from pending transactions and contingent liabilities.

The liabilities resulting from domestic **early retirement arrangements** are backed by securities. These securities are offset against the underlying liabilities in accordance with section 246 para. 2 sentence 2 HGB. For recognition in the balance sheet, the liabilities in connection with early retirement arrangements, in the amount of kEUR 260, were netted out with plan assets at fair value, in the amount of kEUR 436. This resulted in **assets arising from the overfunding of pension obligations** of kEUR 176, which were recognized on the assets side of the balance sheet.

Securities are measured based on the strict lower of cost or market principle; securities which are not netted out (kEUR 521; previous year: kEUR 791) are freely marketable and no longer serve as funding of early retirement liabilities. Correspondingly, interest earned on securities funding early retirement claims is netted out with interest expenses from the compounding of early retirement provisions.

i) Liabilities

Liabilities have the following maturity structure:

Dec. 31, 2019	Up to 1 year EUR	1 to 5 years EUR	More than 5 years EUR	Total EUR
1. Bonds	0.00	60,000,000.00	0.00	60,000,000.00
2. Silent partnership	0.00	4,000,000.00	0.00	4,000,000.00
3. Liabilities to financial institutions	37,273,916.62	51,431,171.29	7,095,494.14	95,800,582.05
4. Advance payments received	467,000.00	0.00	0.00	467,000.00
5. Trade payables	23,074,484.98	0.00	0.00	23,074,484.98
6. Liabilities to affiliated companies	0.00	0.00	0.00	0.00
7. Other liabilities	6,973,252.21	1,546,616.72	0.00	8,519,868.93
	67,788,653.81	116,977,788.01	7,095,494.14	191,861,935.96

Dec. 31, 2018	Up to 1 year EUR	1 to 5 years EUR	More than 5 years EUR	Total EUR
1. Bonds	0.00	60,000,000.00	0.00	60,000,000.00
2. Silent partnership	0.00	4,000,000.00	0.00	4,000,000.00
3. Liabilities to financial institutions	38,531,422.84	61,322,581.67	12,500,000.00	112,354,004.51
4. Advance payments received	0.00	0.00	0.00	0.00
5. Trade payables	29,154,285.79	0.00	0.00	29,154,285.79
6. Liabilities to affiliated companies	15,848.60	0.00	0.00	15,848.60
7. Other liabilities	7,016,707.39	2,419,389.13	0.00	9,436,096.52
	74,718,264.62	127,741,970.80	12,500,000.00	214,960,235.42

The **bond** consists of 60,000 notes in the principle amount of EUR 1,000.00 each. The interest rate is 5.25% p.a. Interest is payable on June 14 of each year, beginning on June 14, 2018. It was placed on the Frankfurt/Main stock exchange with a five-year term, maturing on June 14, 2022. The bond is unsecured and unsubordinated. Interest was recognized on an accrual basis by kEUR 1,715 as of December 31, 2019.

The **silent partnership** relates to a Saarland-based bank and has a term until September 30, 2022. A compensation of 5.0% is paid on kEUR 4,000, independently of the results achieved, as well as an additional profit-related compensation of 2.0% 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. Liens also exist to receivables and bank balances. Insurance claims arising from losses in connection with the relevant assets will be assigned.

The remaining liabilities are unsecured.

In the previous year, **liabilities towards affiliated companies** were trade payables.

Other liabilities essentially comprise liabilities from the financing of fixed asset items (lease purchase and leasing agreements) of kEUR 2,432 (previous year: kEUR 3,943) and wages outstanding in the amount of kEUR 1,765 (previous year: kEUR 1,601) as well as accrued interest under the bond issue in the amount of kEUR 1,715 (previous year: kEUR 1,715). Taxes accounted for kEUR 488 (previous year: kEUR 523) and social insurance contributions for kEUR 1,253 (previous year: kEUR 1,082).

j) Deferred tax liabilities

Deferred tax assets result from different values recognized in the commercial balance sheet and the tax balance sheet in the amount of kEUR 442 (previous year: kEUR 88), from losses carried forward in the amount of kEUR 0 (previous year: kEUR 2,704) and from the elimination of intercompany profits (sale of fixed assets and inventories) in the amount of kEUR 113 (previous year: kEUR 139). Deferred tax liabilities of kEUR 849 (previous year: kEUR 363) result from different values recognized in the commercial balance sheet and the tax balance sheet. Deferred tax assets were netted out with deferred tax liabilities. In calculating deferred tax assets, tax loss carry-forwards are only taken into account to the extent that estimated future income would allow the deduction of those losses. For the calculation of deferred taxes, a tax rate consistent with the entity's legal form was applied to the differences between the commercial balance sheet and the tax balance sheet, as well as to tax loss carry-forwards. Tax rates of between 13% and 28% were used.

7. Notes to the consolidated income statement

With regard to the following notes, it should be taken into account that the figures for the period from January 1, 2018 to December 31, 2018 included Olm GmbH & Co. KG (formerly Homanit Building Materials GmbH & Co. KG) – hereinafter Olm – which was deconsolidated as of July 1, 2018. In order to ensure comparability of the figures, we provide the following transition:

	including Olm kEUR	Olm kEUR	excluding Olm kEUR
Revenues	269,268	5,525	263,743
Increase/decrease in inventories	1,304	127	1,177
Other own work capitalized	919	0	919
Other operating income	3,161	74	3,087
Gross profit	274,652	5,726	268,926
Cost of materials	-155,311	-3,580	-151,731
Expenses for personnel	-40,599	-1,850	-38,749
Depreciation of assets	-16,918	-299	-16,619
Other operating expenses	-43,458	-5,097	-38,361
Operating result	18,366	-5,100	23,466
Financial result	-11,428	-121	-11,307
Income taxes	961	0	961
Group earnings after taxes	7,899	-5,221	13,120

a) Revenues

The Group generates its **revenues** in the following markets:

	2019 kEUR	2018 kEUR
Germany	62,447	62,568
European Union	188,992	184,447
Other foreign countries	22,303	22,253
	273,772	269,268

In the same period of the previous year, Olm accounted for kEUR 2,991 of domestic sales and kEUR 2,534 of sales to customers in the European Union.

b) Other operating income

The main item recognized in **other operating income** were currency exchange gains of kEUR 2,371 (previous year: kEUR 1,669). Of the currency exchange gains in the financial year 2019, kEUR 1,377 were realized and kEUR 994 were not realized. In the financial year 2018, currency exchange gains were realized without exception. In addition, the Group generated profits of kEUR 678 in 2019 from trading in air pollution permits.

c) Expenses for personnel

Expenses for personnel in the amount of kEUR 42,880 (previous year: kEUR 40,599) include expenses for old-age provisions of kEUR 219 (previous year: kEUR 193). 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 (previous year: kEUR 7).

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

	2019	2018
White-collar employees	357	339
Blue-collar employees	1,127	1,159
Total	1,484	1,498

In the same period of the previous year, Olm accounted for 52 of the white-collar employees and 35 of the blue-collar employees.

d) Other operating expenses

Other operating expenses primarily include freight and sales costs in the amount of kEUR 17,166 (previous year: kEUR 17,624), repair and maintenance costs as well as costs of performance in the amount of kEUR 8,795 (previous year: kEUR 8,520), administrative costs of kEUR 9,552 (previous year: kEUR 11,244) and currency exchange losses of kEUR 1,826 (previous year: kEUR 3,842). In the financial year 2019, the currency exchange losses were fully realized. In the financial year 2018, there were realized currency exchange losses of kEUR 2,345 and unrealized currency exchange differences of kEUR 1,497.

In addition, the expenses for other taxes in the amount of kEUR 1,108 (previous year: kEUR 1,138) and the costs of purchase and sale of securities of kEUR 88 (previous year: kEUR 96) are reported. The loss from the liquidation of DHN Transportmittel GmbH & Co. KG amounted to kEUR 154.
In the same period of the previous year, Olm accounted for kEUR 940 of the administrative costs, kEUR 1,536 of the sales costs and kEUR 512 of the performance, repair and maintenance costs.

In the same period of the previous year, there were also costs incurred in connection with the discontinuation of Olm in the amount of kEUR 2,023.

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 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 15 (previous year: kEUR 111); in the previous year, there were also write-downs on cash and cash equivalents in the amount of kEUR 4,800, which were paid to Olm in the financial year 2018.

Interest expenses primarily include interest paid on the bond as well as interest on loans granted by the lending banks. The discounting of non-current provisions resulted in expenses of kEUR 259 (previous year: kEUR 302).

In the same period of the previous year, Olm accounted for kEUR 121 of the interest expenses.

f) Income taxes

This item breaks down as follows:

	2019 kEUR	2018 kEUR
Deferred taxes resulting from differences between the amounts recognized in the commercial balance sheet and the amounts recognized in the tax balance sheet	-525	-71
Trade tax	-134	-279
Corporate income tax from previous year	-78	232
Corporate income tax	-65	-39
Deferred taxes from consolidation	-26	-26
Trade tax from previous years	+118	-50
Polish income tax	0	6
Deferred taxes on losses carried forward	-2,309	+1,188
	-3,019	+961

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

8. Contingent liabilities and other financial obligations

No **contingent liabilities** existed as of December 31, 2019.

As of the balance sheet date, other **financial obligations** amounted to kEUR 10,631 (previous year: kEUR 10,139). These obligations involve rental, leasing and leasehold agreements. There is also a liability from plant orders amounting to kEUR 5,232 (previous year: kEUR 1,344).

An underwriting agreement exists with two credit institutions, as well as an associated agreement concerning financial instruments for hedging against interest rate risks. The transaction is a micro-hedge. A negative market value of kEUR 770 existed as of December 31, 2019 for which no provision was to be recognized since it is ultimately a fixed-interest exposure. The changes in value in the hedged item and the hedging instrument for the interest rate risk completely cancel each other out over the term of the hedging transaction (August 17, 2024), since they are exposed to the same risk and are affected by the identical factors in the same way. Accordingly, the transaction is classified as an effective hedge.

9. Post-balance sheet events

Because of the outbreak of the coronavirus, the World Health Organization (WHO) declared a public health emergency of international concern on January 30, 2020. Since March 11, 2020, the WHO has classified the spread of the coronavirus as a pandemic. We are constantly monitoring the further spread of the coronavirus and its implications for the business of Homann Holzwerkstoffe GmbH and its subsidiaries. We assume that the increasing spread of the coronavirus and the necessary containment measures will have a negative impact on both our output markets and our supplier markets. Continued restrictions due to the coronavirus could have a negative impact on the Group’s net assets, financial position and results of operations in 2020, the extent of which cannot be reliably determined at this time. In this context, please refer to the statements made in the management report in the “Forecast, opportunities and risk report” chapter. No other events that have a material impact on the Group's net assets, financial position and results of operations occurred after the end of the financial year.

10. Other information

Group relationships

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

Fritz Homann GmbH is registered in the Commercial Register of the Munich local court under HRB 240718.

Use of section 264b HGB (German Commercial Code)

Homanit GmbH & Co. KG, Losheim (trading partnerships within the meaning of section 264a para. 1 HGB) was included in the consolidated financial statements of Homann Holzwerkstoffe GmbH and makes use of the exemption provided by section 264b HGB with regard to the disclosure of its financial statements.

Appropriation of earnings

The net profit for the parent company is to be carried forward to new account.

Management

Mr. Fritz Homann, Commercial Manager, Munich, as well as Mr. Ernst Keider, engineer, Saarlouis, (since December 17, 2019) are 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.

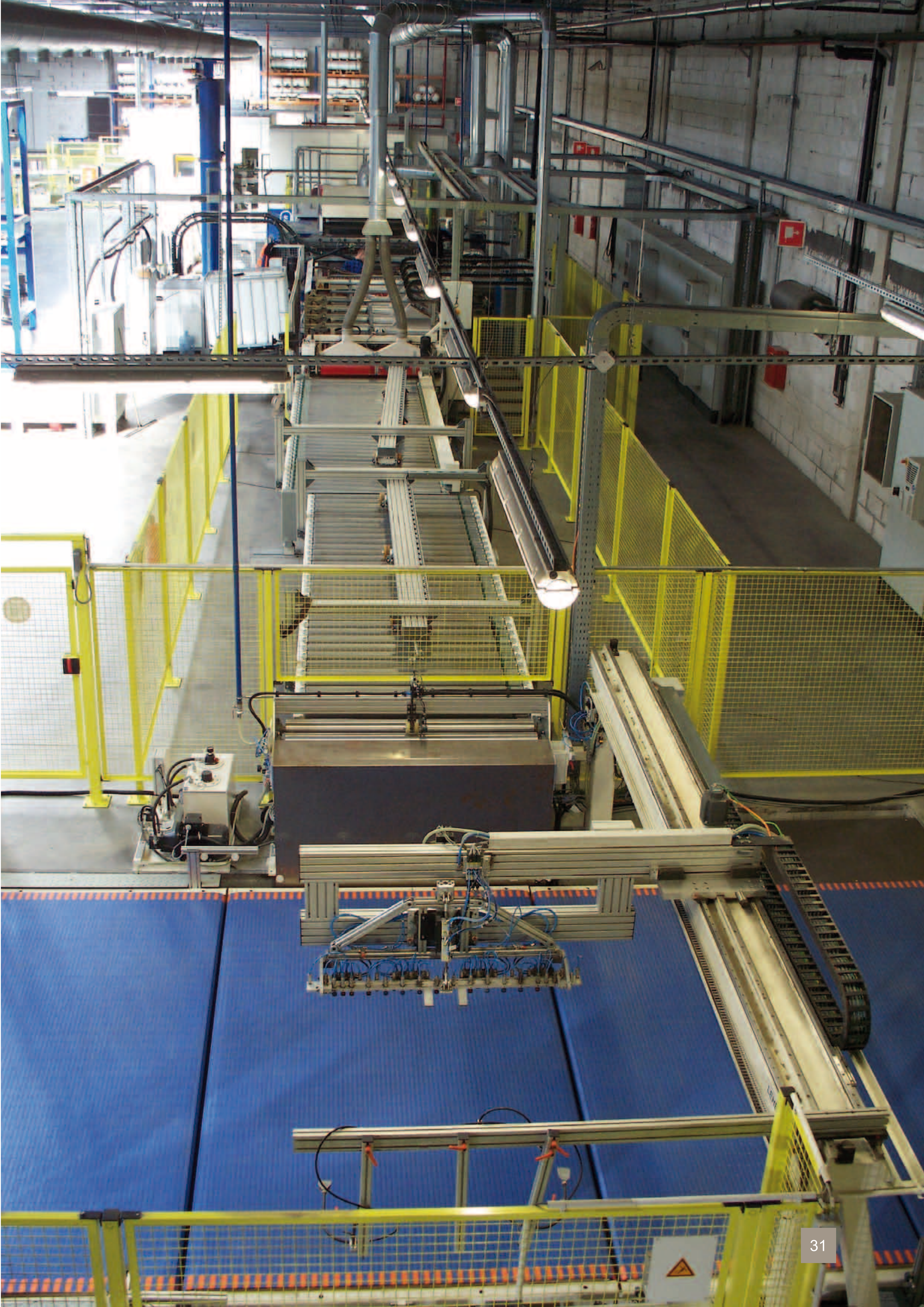
Pension payments of kEUR 10 were made to the widow of a former Managing Director in the financial year. The pension provision established for this purpose amounts to kEUR 22.

Fees

The fee recognized as an expense in the financial year 2019 pursuant to section 314 para. 1 no. 9 HGB relates solely to audit services and amounted to kEUR 181 in 2019 (previous year: kEUR 236).

Munich, April 24, 2020

Fritz Homann Ernst Keider



INDEPENDENT AUDITOR'S REPORT

To Homann Holzwerkstoffe GmbH, Munich

Audit opinions

We have audited the consolidated financial statements of Homann Holzwerkstoffe GmbH, Munich, and its subsidiaries (the Group), comprising the consolidated balance sheet as of December 31, 2019, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cashflow statement for the fiscal year from January 1, 2019 to December 31, 2019, and the notes to the consolidated financial statements, including a description of the accounting and valuation principles used. In addition, we have audited the Group management report of Homann Holzwerkstoffe GmbH, Munich, for the fiscal year from January 1, 2019 to December 31, 2019.

In our opinion, based on the findings of our audit,

- the accompanying consolidated financial statements comply in all material respects with German commercial law and give a true and fair view of the asset and financial position of the Group as of December 31, 2019 and of its earnings performance for the fiscal year from January 1, 2019 to December 31, 2019 in accordance with German principles of proper accounting and

- the Group management report gives a true and fair view of the position of the Group. In all material aspects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and suitably presents the opportunities and risks of future development.

In accordance with section 322 para. 3 sentence 1 HGB, we declare that our audit has not led to any objections regarding the correctness of the consolidated financial statements and the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group management report in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these rules and principles is further described in the section "Auditor's responsibility for the audit of the consolidated financial statements and the Group management report" of our auditor's report. We are independent of the Group companies in accordance with German commercial law and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the Group management report.

Other information

The legal representatives are responsible for providing "other information". "Other information" comprises the 2019 Annual Report, which is expected to be made available to us after the date of this audit report, except for the audited consolidated financial statements and Group management report as well as our auditor's report.

Our audit opinions of the consolidated financial statements and the Group management report do not cover "other information" and we therefore will issue no audit opinion or any other type of audit conclusion regarding such "other information".

As part of our audit, it is our responsibility to read the "other information" – as soon as it becomes available – and to check whether such "other information"

- shows material inconsistencies with the consolidated financial statements, the Group management report or the knowledge obtained in the context of our audit or
- otherwise appears to be materially misstated.

If upon reading the annual report, with the exception of the audited consolidated annual financial statements and Group management report as well as our audit certificate, we conclude that it contains material inaccuracies, we are obliged to report this fact to the persons responsible for monitoring the company.

Responsibility of the legal representatives for the consolidated financial statements and the Group management report

The legal representatives are responsible for preparing consolidated financial statements that – in all material aspects – comply with German commercial law and for making sure that, in consideration of the German principles of proper accounting, the consolidated financial statements give a true and fair view of the assets, financial and earnings position of the Group. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with German generally accepted accounting principles to allow for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility – where applicable – for disclosing matters related to the going concern and for using the going concern basis of accounting, unless this is made impossible by actual or legal circumstances.

The legal representatives are also responsible for preparing a Group management report which, as a whole, provides a suitable view of the Group's position and is consistent with the consolidated financial statements in all material aspects, complies with German legal requirements and suitably presents the future opportunities and risks. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they consider necessary to enable the perparation of a Group management report that complies with the requirements of German commercial law and to enable the provision of sufficient and appropriate evidence for assertions in the Group management report.

Auditor's responsibility for the audit of the consolidated financial statements and the Group management report

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides a suitable view of the situation of the Group and is consistent with the consolidated financial statements in all material aspects as well as with the findings of our audit, complies with the legal provisions applicable in Germany and adequately reflects the future opportunities and risks as well as to issue an audit certificate that contains our audit opinions of the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 of the German Commercial Code (HGB) and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in total, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

During the audit, we exercise due judgement and maintain a critical attitude. In addition

- we identify and assess the risks of material misstatement of the consolidated financial statements and the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls;

- we obtain an understanding of the internal control system that is relevant for the audit of the consolidated financial statements and of the arrangements and measures that are relevant for the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;

- we evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives;

- we conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or in the Group management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may result in the Group no longer being able to continue as a going concern;

- we evaluate the overall presentation, structure and content of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, financial and earnings position of the Group in accordance with German generally accepted accounting principles;

- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements and the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

- we assess the consistency of the Group management report with the consolidated financial statements, its compliance with applicable laws and the view it provides of the situation of the Group;

- we perform audit procedures on the forward-looking information presented by the legal representatives in the Group management report. Based on sufficient audit evidence, we hereby review, in particular, the significant assumptions used by the legal representatives as a basis for the forward-looking information and evaluate the appropriate derivation of the forward-looking information from these assumptions. We do not express a separate audit opinion on the forward-looking information and on the underlying assumptions. There is a substantial unavoidable risk that future events will deviate materially from the forward-looking information.

We discuss with those responsible for monitoring, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Viersen, April 24, 2020

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Tim Bonnecke	Hans-Hermann Nothofer
Wirtschaftsprüfer	Wirtschaftsprüfer

Please note the English version has been translated, in case of any discrepancies of content, the German version will prevail.

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