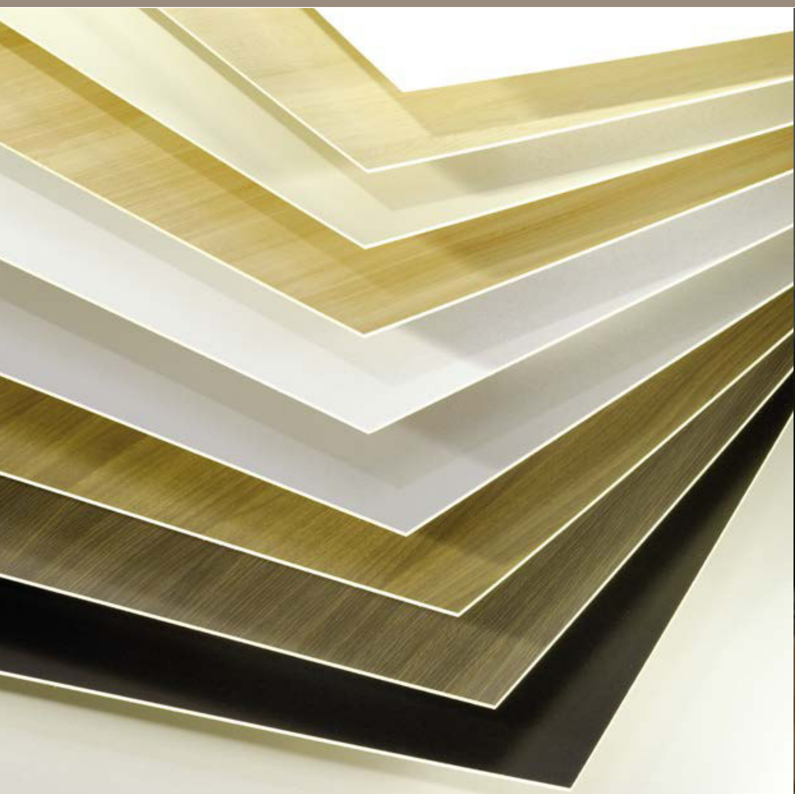
Interim Group Report First Half 2017
for Homann Holzwerkstoffe GmbH



Interim Group Report for Homann Holzwerkstoffe GmbH

for the period from January 1, 2017 to June 30, 2017

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FOREWORD

Dear Sir or Madam,

The basis for continued stable growth of our Group has been laid. This was impressively confirmed already in the first six months of 2017, which saw sales revenues grow by 13.5 % to EUR 129.5 million, with earnings remaining stable.

The quantity of value added finished products have increased, which is our declared objective. Insulating materials from renewable resources and door core have been added to our product portfolio. This new segment and, consequently, our fourth manufacturing location, have performed in line with our plans. On balance, our capacities are well utilised and the order situation is stable.

During the first half of the year, we reorganised our financing structure through bank loans and another corporate bond. Only recently, in September 2017, we were able to tap up the EUR 50 million bond issue, which was completed in June, by another EUR 10 million. The attractiveness of the bond was reflected by high demand. Therefore the refinancing of our old bond, which is due for repayment in December 2017, has been secured. We are now well positioned with a medium-term and a long-term perspective. It will be at our discretion to buy and sell our own bonds going forward.

Anticipating stable demand at a high level, we expect our long-term growth to continue for the rest of the year. Sales revenues and earnings before interest, taxes, depreciation and amortisation (EBITDA) should climb to EUR 240 million and EUR 38 million, respectively. This represents a 15 % increase compared to the full year 2016.

My thanks primarily go to all our employees, who make a key contribution to the successful performance of our Group.

I would like to thank our customers and business partners for our fruitful cooperation and our investors for the confidence placed in us.

Yours sincerely,

Fritz Homann
Managing Director of Homann Holzwerkstoffe GmbH

INTERIM GROUP MANAGEMENT REPORT AS OF JUNE 30, 2017

A. Business activity and framework conditions

1. Corporate structure and business model

Homann Holzwerkstoffe GmbH is a leading European supplier of thin finished wooden fibreboards. The product portfolio of the specialist for the production and distribution of medium-density fibreboards (MDF), high-density fibreboards (HDF) and insulating materials made from renewable resources serves a broad customer base including, in particular, companies from the international furniture, doors and coatings industries as well as the timber / building materials trade. The product portfolio is rounded off by wooden fibre insulating materials and door panels. By strategically addressing additional customer groups, the company is increasingly diversifying its customer base. The international furniture industry nevertheless remained its most important customer group in the first half of 2017.

Organisationally, the Homan Group is essentially composed of Homann Holzwerkstoffe GmbH, as the ultimate parent company, and four operating companies, HOMANIT GmbH & Co. KG headquartered in Losheim/Germany, HOMANIT Polska Sp.z o.o. headquartered in Karlino/Poland and Homanit Krosno Odranskie Sp.z o.o. headquartered in Karlino/Poland as well as Homanit Building Materials GmbH & Co. KG, Berga, which was established with effect from March 1, 2017. As of June 30, 2017, the Group had a total of four production sites, two in Germany and two in Poland.

Strategically the business model of the Homann Group focuses on the complete coverage of all relevant steps of the value chain – from the provision of raw materials such as wood, glue and electricity to ongoing new and further development in the context of research and development activities, multi-stage panel production, finishing and customisation of the products to their distribution. This gives the Group direct control over all process steps and enables it to ensure a high level of product quality. At the same time, it can flexibly respond to individual customer requirements as well as short-term market changes. This strategic approach is one of the main drivers for the Group's strong market position – the Homanit Group is the European market leader in the field of thin finished panels with a thickness of up to 3.0 mm.

2. Framework conditions

The macroeconomy

The economic upward trend in the eurozone continued in the first half of 2017, although the political and geopolitical risks remained high. The momentum was even stronger than in 2016. While the gross domestic product (GDP) was up by 1.9 % year on year in the first quarter of 2017, it increased by approx. 2.2 % in the second quarter of 2017, according to eurostat. The strongest growth in the eurozone and the EU was recorded in Poland as well as in other Eastern European countries, Ireland and Spain. While the growth forecasts for countries such as the USA and Great Britain were downgraded for the remaining course of the year following a relatively weak first half, experts upgraded their expectations for Europe and, especially, for the important economies of Germany, France, Italy and Spain. The IMF's World Economic Outlook projects a GDP growth rate of 1.9 % for the eurozone for the full year 2017 and has thus raised its April 2017 forecast by 0.2 percentage points.

The German economy more or less moved in sync with the eurozone economy in the first six months of 2017. According to the Federal Statistical Office (Destatis), economic growth stayed at a high level, as reflected in year-on-year growth rates of 2.0 % in Q1 and 2.1 % in Q2. In the second quarter, positive stimulation was provided primarily by private consumption and capital spending, whereas net exports had a rather dampening effect due to greatly increased imports. Economic researchers project a similar picture for the second half of the year, with 1.8 % GDP growth expected for the full year 2017.

(Sources: eurostat: Euro Indicators press release, August 16, 2017; International Monetary Fund: World Economic Outlook, July 23, 2017; Federal Statistical Office – Detailed gross domestic product results for the 2nd quarter of 2017, August 25, 2017.)

Industry trend

The competitive environment in the markets relevant for the Homann Group remained almost unchanged in the reporting period. The market segment for thin, finished panels measuring up to 3 mm in thickness, on which the Homann Group focuses, is marked by a healthy competitive situation. In spite of additional capacities, this market segment is relatively balanced. Driven by the continued trend towards lightweight construction in the furniture industry, this segment moreover offers additional growth opportunities.

The framework conditions in the Group's most important lines of industry – furniture and doors – as well as in the largest output markets, Germany and Poland, remain positive. According to the Verband der Deutschen Möbelindustrie (association of the German furniture industry), the good result of 2016 will again be exceeded this year; a growth rate of 0.5 % was recorded in the first half of 2017. The association also projects moderate growth of up to 1 % for the full year in Germany. Poland's furniture manufacturing industry has grown at a stable annual rate of approx. 9 % since 2010. The Polish Economic Chamber of Furniture Manufacturers expects +5 % to +8 % compared to the previous year for 2017.

While the overall trend in 2016 was good but slowed down in the course of the year, total production of MDF/HDF furniture panels in Germany has picked up in the year 2017 to date. Total output of HDF panels increased by 3.5 % to 614,803 m^3 in the first quarter of 2017. HDF panels manufactured for sale increased at a higher rate of 5.2 % to 507,748 m^3. At 216,242 m^3, total production of unfinished MDF furniture panels was down by 2.2 % on the previous year, whereas the amount manufactured for sale was up 2.5 % to 168,114 m^3 year on year.

(Sources: Verband der Deutschen Möbelindustrie e.V: Press release "Möbelindustrie wächst im 1. Halbjahr 2017 leicht um 0,5 %", August 28, 2017; EUWID Holz und Holzwerkstoffe – 29.2017: MDF/HDF-Gesamtproduktion hat wieder angezogen, July 20, 2017.)

B. Business situation of the Group

1. Results of operation

The framework conditions for the most important industries, furniture and doors, in the largest output markets, Germany and Poland, are positive for the Homann Holzwerkstoffe Group. As a result of the stable economic trend and the historically low interest rates, demand for new commercial buildings and owner-occupied residential properties has risen sharply, leading to increased demand for furniture and doors. The trend towards single households and the growing population in large parts of Eastern Europe, especially in Poland, also lead to an increased number of dwellings and, consequently, higher demand for furniture and doors.

Compared to the prior year period, sales revenues of the Homann Holzwerkstoffe Group increased by 13.5 % in the first half of 2017. Adjusted for the company producing door cores and insulating materials (HBM), which was established with effect from March 1, 2017, sales revenues in the HDF segment were up by 10 % on the previous year and exceeded the planned assumptions.

The main items included in other operating comprise include non-cash exchange gains (EUR 6.2 million; previous year: EUR 1.0 million). In addition, income from the sale of fixed assets in the amount of EUR 3.6 million was recognised in the previous year's other operating income.

The cost of materials exceeded our expectations because of the sharp rise in the purchase price of glue. Methanol prices picked up in early 2017 due to increased demand from China and the USA. As the beginning of the year was far too dry, our biggest glue supplier was unable to guarantee a 100 % supply due to the low water of the River Rhine. We therefore expanded our portfolio of suppliers to secure the supply for all our plants. Purchase prices increased by double-digit rate on the budgeted prices during the first half of the year, whereas the costs of wood were in line with plans. For this reason and because of the consolidation of the new investment (HBM), the cost of materials as a percentage of revenues, adjusted for changes in the stocks of finished and unfinished goods, was up by 0.6 percentage points on the previous year.

As the headcount increased from 1,388 to 1,531, personnel expenses rose as planned by EUR 3.5 million, of which EUR 1.1 million relate to the new subsidiary (HBM).

Items included in other operating income include non-cash exchange losses in the amount of EUR 1.9 million (previous year: EUR 5.2 million). Adjusted for this item and the additional expenses resulting from HBM, expenses as a percentage of revenues were slightly lower than in the previous year. For the main expense items, please refer to the notes to the interim consolidated financial statements.

Adjusted for exchange rate gains and losses, earnings before interest, taxes, depreciation and amortisation (EBITDA) deteriorated by EUR 2.0 million to EUR 14.9 million due to the increased cost of materials.

The financial result essentially includes interest on the corporate bond and the loans granted by the lending banks. The increase mainly results from the costs incurred in conjunction with the successful follow-up financing of the corporate bond.

For more information about the income taxes, please refer to the notes on page 32.

Consolidated net income amounted to EUR 5.7 million, compared to EUR 2.6 million in the prior year period.

2. Net assets

Fixed assets increased from EUR 171 million as of December 31, 2016 to EUR 174 million. For more information, please refer to the consolidated statement of fixed assets on page 26 in the notes to the consolidated financial statements.

The Group’s investments in the first half of the year amounted to EUR 4.3 million.

Inventories remained at the level recorded on December 31, 2016. The stocks of unfinished and finished products continue to cover about half a month’s sales.

Receivables and other assets rose by EUR 6 million, primarily due to increased factoring receivables.

The equity ratio improved to 12 % as a result of the consolidated net profit for the period. Adjusted for exchange rates gains and losses recognised in Group reserves and taking into account the silent partnership in the amount of EUR 4 million, the equity ratio stood at 16.7 %.

A new EUR 50 million bond with convertible offer was issued in June. Of the total amount, an amount of EUR 32.68 million was convertibled from the old bond, with EUR 17.32 million paid in cash. Bond liabilities will stay at an increased level until the repayment date in December 2017.

3. Financial position

The statement of cash flows shows cash flow from operating activities of EUR 7 million for the first half of 2017. Net cash used in investing activities amounted to EUR 4.3 million, while financing activities provided net cash of EUR 6.5 million.

C. Opportunities and risks

The opportunity and risk situation has not changed materially compared to December 31, 2016. Detailed information on the Group's risk situation can be found in the 2016 Group Management Report.

D. Post balance sheet events

After June 30, 2017, the corporate bond issued on June 14, 2017 was tapped up by EUR 10 million to EUR 60 million in September 2017. The tapped up bond and the contractually agreed loans in the amount of EUR 50 million mean that the Group is fully financed.

E. Forecast

The overall performance of the first six months will improve in the second half of the year, as the purchase prices of glue returned to the budgeted level as of July 2017. No material changes are expected for wood and timber. As electricity prices are fixed, energy costs will remain stable.

Accordingly, we stick to our forecast of EUR 240 million in revenues and EBITDA of EUR 38 million.

Herzberg, September 13, 2017

(Fritz Homann)

Homann Holzwerkstoffe GmbH
Herzberg am Harz

Interim consolidated financial statements
for the period from January 1, 2017 to June 30, 2017

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2017

Homann Holzwerkstoffe GmbH, Herzberg

ASSETS

	Item Comment	EUR	June 30, 2017 EUR	June 30, 2016 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		3,725,114.58		4,063,587.97
2. Advance payments made		57,021.50		14,719.77
			3,782,136.08	4,078,307.74
II. Tangible assets	6.a.			
1. Properties, rights equivalent to real property and structures including structures on third-party properties		44,547,125.03		43,841,228.83
2. Technical equipment and machinery		115,839,524.66		113,523,557.09
3. Other property, plant and equipment		6,577,667.88		6,372,255.12
4. Advance payments made and work in progress		3,182,223.42		2,934,467.94
			170,146,540.99	166,671,508.98
III. Financial assets	6.b.			
1. Shares in affiliated companies		36,830.12		36,301.99
2. Equity investments		782,324.50		782,324.50
			819,154.62	818,626.49
			174,747,831.69	171,568,443.21
B. Current assets				
I. Inventories				
1. Raw materials and supplies		17,119,384.53		15,290,561.06
2. Unfinished goods		5,832,375.63		2,273,703.67
3. Finished goods		5,080,506.54		7,700,965.24
4. Advance payments made		104,275.22		72,503.22
			28,136,541.92	25,337,733.19
II. Receivables and other assets	6.c.			
1. Trade receivables		3,436,439.82		1,455,639.49
2. Receivables from affiliated companies		138,841.19		136,641.16
3. Receivables from shareholders		14,810,572.00		13,393,634.96
4. Other assets		17,356,523.73		14,766,566.58
			35,742,376.74	29,752,482.19
III. Other securities	6.d.		778,265.26	908,723.19
IV. Cash holdings, bank deposits			16,078,751.51	5,055,757.64
			80,735,935.43	61,054,696.21
C. Accrued items	6.c.		3,091,204.29	2,183,907.76
D. Deferred tax assets	6.e.		2,217,455.00	2,198,890.00
			260,792,426.41	237,005,937.18

LIABILITIES

	Item Comment	EUR	June 30, 2017 EUR	June 30, 2016 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		–7,862,129.76		–10,037,131.03
V. Consolidated unappropriated retained earnings		14,475,729.71		8,801,333.40
			31,661,003.55	23,811,605.97
B. Provisions	6.g.			
1. Provisions for pensions		1,970,618.00		1,813,197.00
2. Provisions for taxes		1,388,823.97		1,664,372.32
3. Other provisions		4,464,477.99		2,848,652.26
			7,823,919.96	6,326,221.58
C. Liabilities	6.h.			
1. Bonds		117,320,000.00		100,000,000.00
2. Silent partnership		4,000,000.00		4,000,000.00
3. Liabilities to financial institutions		64,992,768.06		67,911,516.30
4. Trade liabilities		23,914,989.16		26,117,535.01
5. Liabilities to affiliated companies		15,901.49		16,550.22
6. Other liabilities		11,063,844.19		8,822,508.10
			221,307,502.90	206,868,109.63
			260,792,426.41	237,005,937.18
Contingent liabilities	8.			

CONSOLIDATED INCOME STATEMENT

Homann Holzwerkstoffe GmbH, Herzberg
for the period from January 1, 2017 to June 30, 2017

	Item Comment	Jan. 1, 2017 to June 30, 2017 EUR	Jan. 1, 2016 to Dec. 31, 2016 EUR	Jan. 1, 2016 to June 30, 2016 EUR
1.Revenues	7.a	129,468,996.24	225,461,310.61	114,125,271.45
2.Reduction or increase in inventory of finished and unfinished goods		915,179.25	–228,141.61	–1,324,842.42
3.Other own work capitalised	7.b	75,950.75	1,506,833.79	323,796.71
4.Other operating income	7.c	6,408,187.34	8,847,410.40	5,020,185.31
5.Cost of materials	7.d			
a) Cost of raw materials and consumables and goods for resale		–67,541,454.91	–113,086,156.58	–54,114,721.09
b) Cost of purchased services		–7,227,076.50	–16,456,642.95	–7,929,332.20
		–74,768,531.41	–129,542,799.53	–62,044,053.29
6.Expenses for personnel	7.e			
a) Wages and salaries		–16,377,683.14	–26,673,918.83	–13,318,924.82
b) Social security, pensions and other benefits		–3,206,921.12	–5,567,076.18	–2,704,567.10
		–19,584,604.26	–32,240,995.01	–16,023,491.92
7.Depreciation and amortisation of intangible and tangible fixed assets		–8,277,388.45	–15,111,732.76	–7,506,164.63
8.Other operating expenses	7.f	–23,339,339.80	–42,418,562.89	–23,634,552.93
9.Income from equity investments		0.00	110,419.50	0.00
10.Income from other investments and loans classified as financial assets	7.g	40,000.00	80,000.00	0.00
11.Other interest and similar income	7.g	387,634.16	1,168,715.41	463,972.19
12.Write-down of financial investments and investments classified as current assets	7.g	–1,072.62	–20,652.93	0.00
13.Interest and similar expenditure	7.g	–5,394,651.49	–9,993,158.50	–5,200,734.88
14.Extraordinary expenses	7.h	–255,963.40	–1,332,190.08	–1,635,989.29
15.Consolidated net income for the year		**5,674,396.31**	**6,286,456.40**	**2,563,396.30**
16.Consolidated unappropriated profits carried forward		8,801,333.40	5,264,877.00	5,264,877.00
17.Advanced distribution of profit		0.00	–2,750,000.00	0.00
18.Consolidated unappropriated retained earnings		**14,475,729.71**	**8,801,333.40**	**7,828,273.30**

CONSOLIDATED STATEMENT OF CASH FLOWS

Homann Holzwerkstoffe GmbH, Herzberg
for the period from January 1, 2017 to June 30, 2017

	Jan. 1, 2017 to June 30, 2017 kEUR	Jan. 1, 2016 to Dec. 31, 2016 kEUR	Jan. 1, 2016 to June 30, 2016 kEUR
Consolidated result	5,674	6,286	2,563
Depreciation of assets	8,277	15,112	7,506
Increase/decrease in provisions	1,498	–19	871
Other non-cash expenses/income	–4,947	–1	4,212
Decrease/increase in inventories	–2,799	2,138	295
Increase in trade receivables	–1,980	–703	–4,453
Decrease/increase in receivables from shareholders and affiliated companies	–564	3,481	363
Increase/decrease in other assets	–3,516	–5,567	–951
Decrease in trade payables	–2,203	3,177	–1,536
Decrease in liabilities to shareholders and affiliated companies	0	–15	–13
Increase/decrease in other liabilities	2,242	–91	3,309
Loss/profit from the disposal of fixed assets	55	–3,582	–3,657
Interest expenses	5,128	8,824	4,291
Currency-related change in assets/liabilities	–132	4,760	835
Income tax expense	256	0	79
Cash flow from operating activities	**6,989**	**33,800**	**13,714**
Proceeds from the disposal of tangible assets / intangible assets	104	6,866	3,786
Auszahlungen für Zugänge zum Konsolidierungskreis	–1,516	0	0
Cash paid for investments in tangible assets / financial assets / intangible assets	–2,846	–21,336	–8,178
Cash outflow from investing activities	**–4,258**	**–14,470**	**–4,392**
Cash received from the raising of loans	0	2,930	1,390
Payments for the redemption of financial loans	–4,562	–6,476	–2,270
Cash received from follow-up financing of the bond	17,320	0	0
Payments for the redemption of the silent partnership	0	–1,250	–1,250
Payments made to equity holders	–855	–2,750	–1,500
Interest paid	–5,128	–8,825	–4,291
Corporate and trade tax paid	–256	0	–79
Cash outflow and cash inflow from financing activities	**6,519**	**–16,371**	**–8,000**
Change in cash and cash equivalents	**9,250**	**2,959**	**1,322**
Cash and cash equivalents at the beginning of the period	–27,958	–30,917	–30,917
Cash and cash equivalents at the end of the period	**–18,708**	**–27,958**	**–29,595**

Composition of cash and cash equivalents:	**TEUR**	**TEUR**	**TEUR**
Cash and cash equivalents	16,079	5,056	4,786
Securities	0	130	133
Short term agreed iabilities to financial institutions	–34,787	–33,144	–34,514
	–18,708	**–27,958**	**–29,595**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Homann Holzwerkstoffe GmbH, Herzberg
for the period from January 1, 2017 to June 30, 2017

	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	Group equity capital EUR
January 1, 2016	25,000,000	25,565	21,839	–9,156,373	5,264,877	21,155,908
Exchange differences	0	0	0	–798,024	0	–798,024
Group result for the half-year	0	0	0	0	2,563,396	2,563,396
June 30, 2016	25,000,000	25,565	21,839	–9,954,397	7,828,273	22,921,280
Exchange differences	0	0	0	–82,734	0	–82,734
Group result for the year	0	0	0	0	973,060	973,060
December 31, 2016/ January 1, 2017	25,000,000	25,565	21,839	–10,037,131	8,801,333	23,811,606
Exchange differences	0	0	0	2,175,001	0	2,175,001
Group result for the half-year	0	0	0	0	5,674,396	5,674,396
June 30, 2017	25,000,000	25,565	21,839	–7,862,130	14,475,729	31,661,004

Homann Holzwerkstoffe GmbH
Herzberg am Harz

Notes to the interim consolidated financial statements for the period ended June 30, 2017

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017

1. Preparation of the interim consolidated financial statements

The interim consolidated financial statements of Homann Holzwerkstoffe GmbH (HHW) as of June 30, 2017 were drawn up in accordance with the requirements of the German Commercial Code (HGB). The financial statements of consolidated companies were generally drawn up in accordance with the requirements of the respective countries. For the purposes of the interim 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 balance sheet figures for the previous year relate to December 31, 2016, while the income statement figures relate to the period from January 1, 2016 to June 30, 2016.

2. Basis of consolidation

Homanit Building Materials GmbH & Co. KG was initially consolidated with effect from March 1, 2017, the date of its foundation. The following companies were included in the interim consolidated financial statements for the period ended June 30, 2017:

No,	Company	Equity share	Held by	Equity June 30, 2017 100%	Net profit/loss for the period as of Jan, 1, 2017 to June 30, 2017
		%	No,	kEUR	
1	Homann Holzwerkstoffe GmbH, Herzberg				
2	Homanit Holding GmbH, Losheim	100.00	1	55,775	–272
3	Homanit GmbH & Co, KG, Losheim	100.00	2	37,807	+4,754
4	Homanit Verwaltungsgesellschaft mbH, Losheim	100.00	3	34	+1
5	Homanit France SARL, Schiltigheim	100.00	3	23	+1
6	Homanit Polska Sp, z o,o,, Spolka	99.99	3	59,139	+7,391
	Kommandytowa, Karlino	0.01	7		
7	Homanit Polska Sp, z o,o,, Karlino	100.00	3	571	+109
8	Homatrans Sp, z o,o,, Karlino	100.00	6	1,336	+68
9	Homanit Krosno Odranskie Sp, z o,o,, Krosno	99.99	2	–5,098	+2,762
10	Homatech Polska Sp, z o,o,, Karlino	100.00	6	217	+9
11	Homanit Building Materials GmbH & Co, KG, Berga	100.00	2	1,036	–464

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 interim 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 interim 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 June 30, while income statements are generally translated at the average rate for the period from January 1 to June 30. 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 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 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 regulations. 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 lower of cost or market principle. Where necessary, lower fair values were recognised.

Finished and unfinished goods are measured at cost of manufacture, paying regard 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.

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

Investments classified as current assets are recognised at amortised 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.

Advance payments of costs that concern the following months are recognised in **prepaid expenses**. Discounts do not form part of 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. Non-current provisions with a term of more than one year are discounted at the average market interest rate corresponding to their remaining term.

Liabilities are recognised at the repayment amount. Liabilities in foreign currencies are translated at the exchange rate on the day of acquisition or at higher exchange rates prevailing on the reporting date.

6. Notes to the interim consolidated balance sheet

a) Fixed assets

Changes in consolidated fixed assets for the period from January 1, 2017 to June 30, 2017:

Cost of purchase/manufacture

	Date Jan. 1, 2017 EUR	Re-classifications EUR	Additions EUR	Changes in basis of consolidation EUR	Disposals EUR	Foreign exchange differences EUR	Date June 30, 2017 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	5,942,427.69	0.00	135,405.97	840.13	0.00	24,237.39	6,102,911.18
2. Advance payments made	14,719.77	0.00	42,301.73	0.00	0.00	0.00	57,021.50
	5,957,147.46	0.00	177,707.70	840.13	0.00	24,237.39	6,159,932.68
II. Tangible fixed assets							
1. Properties, rights equivalent to real property and structures including structures on third-party properties	69,834,634.60	6,886.78	182,939.67	60,201.31	–2,571.17	2,194,506.11	72,276,597.30
2. Technical equipment and machinery	176,376,131.25	340,396.62	1,173,592.13	1,406,336.80	–92,867.64	7,184,642.58	186,388,231.74
3. Other property, plant and equipment	15,056,929.71	42,444.87	738,108.11	48,619.66	–245,706.30	387,233.28	16,027,629.33
4. Advance payments made and work in progress	2,934,467.94	–389,728.27	573,416.94	0.00	–56,014.69	120,081.50	3,182,223.42
	264,202,163.50	0.00	2,668,056.85	1,515,157.77	–397,159.80	9,886,463.47	277,874,681.79
III. Financial assets							
1. Shares in affiliated companies	36,301.99	0.00	0.00	0.00	0.00	528.13	36,830.12
2. Equity investments	782,324.50	0.00	0.00	0.00	0.00	0.00	782,324.50
	818,626.49	0.00	0.00	0.00	0.00	528.13	819,154.62
	270,977,937.45	0.00	2,845,764.55	1,515,997.90	–397,159.80	9,911,228.99	284,853,769.09

Depreciation/impairments					Book value	
Date Jan. 1, 2017	Additions	Disposals	Foreign exchange differences	Date June 30, 2017	Date June 30, 2017	Date Jan. 1, 2017
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,878,839.72	487,061.93	0.00	11,894.95	2,377,796.60	3,725,114.58	4,063,587.97
0.00	0.00	0.00	0.00	0.00	57,021.50	14,719.77
1,878,839.72	487,061.93	0.00	11,894.95	2,377,796.60	3,782,136.08	4,078,307.74
25,993,405.77	1,287,315.67	–2,271.21	451,022.04	27,729,472.27	44,547,125.03	43,841,228.83
62,852,574.16	5,708,331.75	–56,727.84	2,044,529.01	70,548,707.08	115,839,524.66	113,523,557.09
8,684,674.59	794,679.12	–179,295.73	149,903.47	9,449,961.45	6,577,667.88	6,372,255.12
0.00	0.00	0.00	0.00	0.00	3,182,223.42	2,934,467.94
97,530,654.52	7,790,326.54	–238,294.78	2,645,454.52	107,728,140.80	170,146,540.99	166,671,508.98
0.00	0.00	0.00	0.00	0.00	36,830.12	36,301.99
0.00	0.00	0.00	0.00	0.00	782,324.50	782,324.50
0.00	0.00	0.00	0.00	0.00	819,154.62	818,626.49
99,409,494.24	8,277,388.47	–238,294.78	2,657,349.47	110,105,937.40	174,747,831.69	171,568,443.21

b) Financial assets

The shares in HBG Holzbaustoff Beteiligungs-GmbH, Munich, and HOPE Investment sp.z.o.o., Poznan/Poland, were recognised as shares in affiliated companies. These companies are currently not consolidated as they are of minor importance. The equity investment relates to DHN Transportmittel GmbH & Co. KG as well as its general partner. The Group holds 50 % of the shares in each company. Information on the equity and interim results of these companies is not available. These companies are also not consolidated as they are of minor importance.

c) Receivables, other assets, prepaid expenses

Receivables from shareholders involve the interest-bearing clearing accounts with Fritz Homann GmbH and VVS GmbH. 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 are an investment available for resale (kEUR 3,514), tax refund claims amounting to kEUR 6,125 (previous year: kEUR 6,195) as well as receivables from a factoring company amounting to kEUR 5,750 (previous year: kEUR 2,795). Receivables, other assets and prepaid expenses in the amount of kEUR 13,494 (previous year: kEUR 14,000) have a remaining term of more than one year.

d) Other securities

Other securities exclusively comprise 909 shares in the bond issued by the company, which will be repaid in the amount of kEUR 67,320 on December 14, 2017.

e) Deferred tax assets

Deferred tax assets totalling kEUR 213 (previous year: kEUR 200) are the result of differing valuation approaches used for the commercial balance sheet and the tax balance sheet. Additional deferred tax assets of kEUR 2,125 (previous year: kEUR 2,091) were calculated on losses carried forward. Deferred tax liabilities of kEUR 300 (previous year: kEUR 284) were deducted from deferred tax assets. The tax payable was determined in accordance with the respective legal form using tax rates of between 13 % and 26.25 %.

Consolidation measures resulted in additional deferred tax assets totalling kEUR 168 (previous year: kEUR 192). The parent company’s tax rate of 26.25 % was applied to the consolidation measures.

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 June 30, 2017:

	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:

	June 30, 2017 kEUR	Dec. 31, 2016 kEUR
Exchange differences	–7.944	–10.119
Negative goodwill arising from capital consolidation	+82	+82
	–7.862	–10.037

The negative goodwill resulting from initial consolidation relates to Homatrans (kEUR 80) and Homanit Verwaltungs GmbH (kEUR 2). The goodwill resulted from profits generated prior to initial consolidation.

As of June 30, 2017, the consolidated unappropriated retained earnings amounted to kEUR 14,476. The reconciliation arises from 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:

Interest rate at the beginning of the fiscal year	4.01 %
Interest rate at the end of the fiscal year	3.86 %
Anticipated wage and salary increases p.a.	0.00 %
Expected pension increases p.a.	1.50 %
Staff turnover p.a.	3.30 %

As of June 30, 2017 an amount of kEUR 50 from the first-time adoption of the German BilMoG Act had not yet been recognised in pension provisions. Application of the average interest rate of the past seven years would result in a kEUR 62 increase in pension provisions.

The tax provisions include settlement arrears from trade and corporate tax payment obligations which essentially refer to previous years.

Other provisions include obligations from the employment of staff in the amount of kEUR 2,476.

The liabilities resulting from domestic early retirement arrangements are backed by securities. These securities are offset against the underlying liabilities. In the income statement, the expenses from compounding were correspondingly offset against the interest income from the investment of the plan assets.

h) Liabilities

Liabilities have the following maturity structure:

June 30, 2017 (EUR)	up to 1 year	1 to 5 years	more than 5 years	total
1. Bonds	67,320,000.00	50,000,000.00	0.00	117,320,000.00
2. Silent partnership	0.00	0.00	4,000,000.00	4,000,000.00
3. Liabilities to financial institutions	45,281,835.97	17,206,056.39	2,504,875.70	64,992,768.06
4. Trade liabilities	23,914,989.16	0.00	0.00	23,914,989.16
5. Liabilities to affiliated companies	15,901.49	0.00	0.00	15,901.49
6. Other liabilities	9,371,357.44	1,692,486.75	0.00	11,063,844.19
	145,904,084.06	68,898,543.14	6,504,875.70	221,307,502.90

December 31, 2016 (EUR)	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

On December 14, 2012, the company issued a 5-year corporate bond in the amount of kEUR 50,000 at the Frankfurt/Main stock exchange. The bond was increased by kEUR 25,000 each in July 2013 and in May 2014. Interest is payable in arrears on December 14 of each year. The interest rate is 7.0 % p.a. The bond is unsecured and unsubordinated. In the context of the follow-up financing, existing bondholders accepted the exchange offer in the amount of kEUR 32,680 (32,680 notes), which means that the original bond will have to be repaid on December 14, 2017 in the amount of kEUR 67,320. As part of the exchange, accrued interest for the period from December 14, 2016 to June 13, 2017 and compensation totalling kEUR 1,958 were paid to the bondholders.

The new kEUR 50,000 corporate bond has a term from June 14, 2017 to June 14, 2022 and carries a coupon of 5.25 % p.a. The bond is unsecured and unsubordinated.

The silent partnership in the financial statements of the subsidiary Homanit GmbH & Co. KG serves to strengthen the equity base; it has a term until September 30, 2022 and is held by a financial institution.

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.

Other liabilities include, in particular, hire purchase liabilities from the financing of fixed assets in the amount of kEUR 4,664 (previous year: kEUR 5,567).

Further important other liabilities result from accrued interest under the bond issued by Homann Holzwerkstoffe in the amount of kEUR 2,682 (previous year: kEUR 311).

Other liabilities furthermore include outstanding wages of kEUR 1,389 (previous year: kEUR 1,185). Taxes accounted for kEUR 1,024 (previous year: kEUR 350) and social insurance contributions for kEUR 888 (previous year: kEUR 817).

7. Notes to the income statement

a) Revenues

Sales revenues break down into kEUR 29,320 generated in Germany (previous year: kEUR 25,567) and kEUR 100,150 generated abroad (previous year: kEUR 88,558). HDF/MDF boards accounted for kEUR 125,519 of the sales revenues, while insulating materials accounted for kEUR 3,950. The insulating materials segment was added to the Group's activities as a result of the initial consolidation of Homanit Building Materials GmbH & Co. KG.

b) Other own work capitalised

Other own work capitalised was realised primarily in Krosno, Poland, and relates to the construction and reconstruction of buildings and technical plants. Besides direct material costs and material overheads, direct and indirect labour costs were capitalised as well to the extent that they could be assigned to the projects.

c) Other operating income

The main item recognised in other operating income were exchange gains of kEUR 6,272 (previous year: kEUR 1,046). In the previous year, this item additionally comprised primarily income from the sale of fixed assets in the amount of kEUR 3,657.

d) Cost of materials

The cost of materials increased by kEUR 12,725 compared to the prior year period and thus moved almost in sync with sales revenues.

e) Expenses for personnel

Expenses for personnel in the first half of 2017 were up by kEUR 3,561 on the same period of the previous year. This comprises expenses for old-age provisions in the amount of kEUR 158.

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

	June 30, 2017	June 30, 2016
Salaried workers	336	289
Hourly workers	1,195	1,099
Total	1,531	1,388

f) Other operating expenses

The main items recognised in other operating expenses were:

	June 30, 2017 TEUR	June 30, 2016 TEUR
Freight and other sales costs	9,119	7,279
Currency losses	1,947	5,258
Repair and maintenance costs	2,375	2,752
Administrative costs	6,121	4,221
Costs of performance	2,190	2,279

Currency losses were offset by currency gains of kEUR 6,272 (previous year: kEUR 1,046), which are shown under other operating income. Other operating expenses also include other taxes in the amount of kEUR 526 (previous year: kEUR 511).

g) Financial result

Income from other investments and loans classified as financial assets as well as other interest in H1 2017 primarily related to interest income from the shareholder clearing accounts.

Interest expenses essentially comprise interest on the corporate bond and the loans granted by the lending banks. The increase mainly results from the costs incurred in conjunction with the successful follow-up financing of the corporate bond.

h) Income taxes

This item contains income tax and trade tax expenses for the first half of 2017 in the amount of kEUR 195 (previous year: kEUR 721) as well as expenses for deferred taxes from the sale of fixed assets in the amount of kEUR 13. In addition, deferred tax assets of kEUR 18 were derecognised as an expense due to the utilisation of tax losses carried forward. The change in valuation differences between the commercial balance sheet and the tax balance sheet accounted for expenses in the amount of kEUR 30.

8. Other financial commitments

As of the balance sheet date, other financial obligations amounted to kEUR 10,755 (previous year: kEUR 11,141). These obligations involve rental and leasing agreements. There is also a liability from plant orders amounting to kEUR 4,824 (previous year: kEUR 6,145).

9. Other information

The parent company of Homann Holzwerkstoffe GmbH is Fritz Homann GmbH, Herzberg. Homann Holzwerkstoffe GmbH is registered with the local court of Göttingen under HRB 200679.

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.

Herzberg, September 13, 2017

(Fritz Homann)

REVIEW REPORT

To Homann Holzwerkstoffe GmbH:

We have reviewed the consolidated interim financial statements, comprising the consolidated interim balance sheet, the consolidated interim profit and loss account, the notes to the consolidated interim financial statements, the consolidated cash flow statement, the consolidated statement of changes in equity and the interim group management report of Homann Holzwerkstoffe GmbH for the financial year for the period of January 1, 2017 to June 30, 2017.

The preparation of the consolidated interim financial statements and the interim group management report in accordance with the requirements of German commercial law and the principles of the German accounting standard No. 16 “Interim Financial Reporting” (DRS 16) is the responsibility of the Company’s management. Our responsibility is to issue a review report on the consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the consolidated interim financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the consolidated interim financial statements have not been prepared, in material aspects, in accordance with the requirements of German commercial law or do not give a true and fair view of the net assets, financial position and results of operation in accordance with the German principles of proper accounting or that the interim group management report is not consistent with the consolidated interim financial statements or does not comply with the legal requirements or as a whole does not provide a suitable understanding of the company’s position or suitably present the chances and risks of future development or does not comply with the principles of DRS 16 to be applied to the interim financial reporting. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor’s report.

Based on our review no matters have come to our attention that cause us to presume that the consolidated interim financial statements have not been prepared in material respects in accordance with the requirements of German commercial law or, do not give a true and fair view of the net assets, financial position and results of operation in accordance with the German principles of proper accounting, nor that the interim group management report is not consistent with the consolidated interim financial statements or does not comply with the legal requirements or as a whole does not provide a suitable understanding of the company’s position or suitably present the opportunities and risks of future development or does not comply with the principles of DRS 16 to be applied to the interim financial reporting.

Pursuant to No. 9 sec. 2 of the general terms of engagement, our liability for a single negligent event of damage, except for damages resulting from injury to life, body and health, is limited to EUR 4 million. This limitation of liability applies to you and all other addressees and/or third parties (hereinafter collectively “recipients”) who are informed about the results of our work in accordance with the terms of engagement.

These recipients are joint creditors in the meaning of Section 428 of the German Civil Code (“Bürgerliches Gesetzbuch”, BGB) and the maximum liability amount of EUR 4 million is only available once to all recipients together. The distribution of the liability amount must exclusively be determined by the recipients. We are entitled to also raise objections from the engagement vis-à-vis the recipients included in the scope of protection of the engagement, Section 334 BGB.

Viersen, September 13, 2017

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Hans-Hermann Nothofer
(German Public Auditor)

Dipl.-Vw. Peter Kaldenbach
(German Public 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