POLISH FINANCIAL SUPERVISION AUTHORITY

Non-Consolidated Annual Report R 2018

year

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

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

for the financial year 2018, covering the period from January 1st to December 31st 2018,

including financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: April 24th 2019

Pfleiderer Group Spółka Akcyjna

(full name)

Pfleiderer Group SA (abbreviated name)	**wood products** (sector according to the Warsaw Stock Exchange's classification)
53-611 (postal code)	**Wrocław** (city/town)
ul. STRZEGOMSKA (street)	**42AB** (number)
+48 71 747 11 00 (telephone number)	**+48 71 747 11 41** (fax number)
office@pfleiderer.com (e-mail)	www.pfleiderer.com (web site)
719-10-00-479 (NIP – Tax Identification Number)	**4500933817** (REGON – Industry Registration Number)

	PLN '000		EUR '000	
FINANCIAL HIGHLIGHTS	**2017**	**2017**	**2018**	**2017**
I. Sales revenue	-	-	-	-
II. Operating profit/(loss)	-15 475	-31 446	-3 632	-7 388
III. Profit/(loss) before tax	140 584	419 336	32 998	98 517
IV. Net profit	144 442	415 542	33 903	97 625
V. Net cash provided by (used in) operating activities	-12 571	-20 751	-2 951	-4 875
VI. Net cash provided by (used in) investing activities	189 867	81 918	44 566	19 245
VII. Net cash provided by (used in) financing activities	-106 524	-61 431	-25 003	-14 432
VIII. Total net cash flow	70 772	-264	16 612	-62
IX. Total assets	2 278 687	2 305 734	529 755	552 007
X. Liabilities	1 143 549	862 496	265 855	206 487
XI. Non-current liabilities	124	4 121	29	987
XII. Current liabilities	1 143 425	858 375	265 826	205 500
XIII. Equity	1 135 138	1 443 238	263 900	345 520
XIV. Share capital	21 351	21 351	4 964	5 112
XV. Outstanding shares at the end of the reporting period	64 701 007	64 701 007	64 701 007	64 701 007
XVII. Earnings per ordinary share (PLN/EUR)	2,54	6,49	0,60	1,53
XIX. Book value per share (PLN/EUR)	17,54	22,31	4,08	5,34
XX. Declared or paid dividend per share (PLN/EUR)	1,20	1,10	0,28	0,26

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First name and surname	Position	Signature
April 24th 2019	Thomas Schäbinger	President of the Management Board	
April 24th 2019	Nico Reiner	Member of the Management Board	

PFLEIDERER

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MANAGEMENT REPORT

OF THE OPERATIONS OF THE PFLEIDERER GROUP S.A. AND THE CAPITAL GROUP
FOR THE YEAR ENDED 31 DECEMBER 2018

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LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

TOM K. SCHÄBINGER

PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

Dear Investors,

I have the pleasure of presenting you with the report on activities of Pfleiderer Group for the year 2018. It was a period of continued growth of our business: Pfleiderer's top line increased by 5.6% y/y reaching EUR 1.06B. The Group's adjusted EBITDA enjoyed a 12.0% y/y growth to EUR 141.9m, while reported EBITDA grew 11.5% y/y to EUR 133.8m. We are especially pleased with the fact that last year we managed to increase sales in all major categories of high-value-added products, which are our clear sales focus.

We are also gradually improving our adjusted EBITDA margin, which last year improved by 0.8 p.p. to 13.4%. 2018 has also shown Pfleiderer's great track record in transferring the increasing prices of select raw materials to prices of final products, which bodes well for the firm in the future.

Last year witnessed a number of positive developments for the company as Pfleiderer continues to invest in its output capacities. We have successfully launched a new lacquering line in our production plant in Leutkirch, the largest and most advanced hot coating line in the world. It will allow us to present clients with new, attractive high-quality products such as Pfleiderer PrimeBoard as well as HPL XTerior compact boards for exterior use. We will leverage this new investment in our effort to increase sales of high-value-added products and their share in our product mix. Another important investment which materialised in 2018 was the launch of a new wood recycling facility in Neumarkt. Thanks to that investment we will be able to increase the share of recycled wood in our production process. We will implement similar investments in other plants of the Pfleiderer Group.

Pfleiderer is also consistently showing its commitment to reduce costs. Sales and administrative expenses declined in 2018, which combined with top line growth translated into reducing the cost-to-revenues ratio to 17.1% last year, compared to 18.3% in 2017. Of course, cost-cutting at the firm is not blind and indiscriminate – we continue to invest in the future of our organisation, be it through investment in the machine park and optimisation or through investing in our employees.

Our shareholders have always been our priority and the developments of 2018 constitute yet another example of this approach: We shared profits with our shareholders, paying out over PLN 71m (ca. EUR 16.4m) in dividend and distributing another EUR 89m to shareholders via a share buy-back in 2018 alone.

Still, bearing in mind all the positive developments of 2018, we have to remember that it was also a time of challenges for the firm and for the entire market, and some challenges are here to stay. We have witnessed a significant increase in the costs of selected raw materials, something the firm had to adjust to, as well as the prospect of new production capacities in Poland. More importantly, however, we face an environment of slowing GDP growth in the near future, which may have its impact on the market of wood-derived products.

I am happy to say that this macro environment validates the firm's adopted strategic approach. We continue our focus on high-value-added products, which give us the opportunity to enter new market niches and cope with the margin squeeze observable in the segment of commoditised basic wood-derived products. We also put a lot of effort into improving our operational efficiency. Our approach is starting to yield first results and our teams are working successfully to deliver our strategic targets for the year 2021, i.e. EUR 1.3B in revenues and an EBITDA margin of over 16%.

The current challenging market environment also forces us to continue the deleveraging process. The firm's net debt/EBITDA ratio reached its peak in Q4 2018 and we expect it to decline going forward.

On behalf of the Management Board, I would like to thank all of our Employees, Stakeholders, Shareholders and Supervisory Board members for the trust and their enormous contribution towards the development of Pfleiderer Group. I am looking forward to continue increasing the value of Pfleiderer Group through all the undertaken initiatives.

My best regards,

Tom K. Schäbinger

President of the Management Board of Pfleiderer Group S.A.

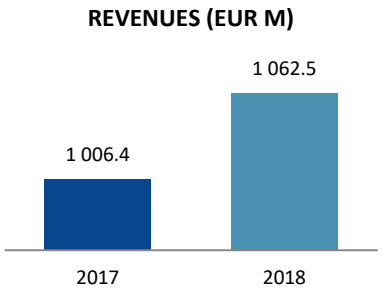
OUR VISION – FOR AN INTEGRATED PFLEIDERER GROUP IN EUROPE

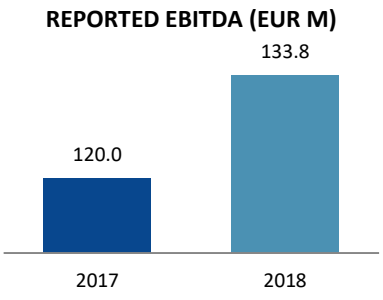
- We are a fully-integrated wood panel manufacturer with profitable growth and with value generation.
- We offer State-of-the-art decorative surface competence providing value and differentiation to customers.
- We offer operational excellence in supply chain and services to customers in the industry and construction sector, retail sector and architects.
- We focus on environmental and social sustainability. Sense of responsibility from the basis of our culture which is based on trust.
- We have technology capability and close cooperation with reliable partners to technological change.

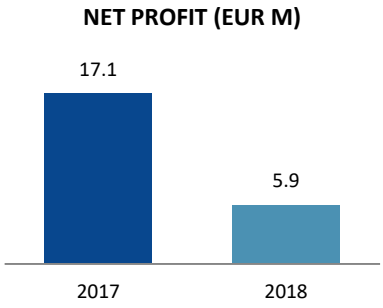
PFLEIDERER GROUP IN 2018 AT A GLANCE

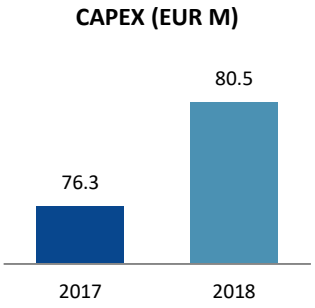
GOOD SET OF FINANCIAL RESULTS SUPPORTED BY FAVOURABLE MARKET CONDITIONS

12.6%	EBITDA margin driven by consistent improvement in operational efficiency in recent periods
11.5%	Growth in EBITDA* - to EUR 133.8 million
EUR 80.5 million	Capital expenditures - continued investments on strategic projects with an attractive payback









(*) EBITDA - Earnings before Interest, Tax, Depreciation and Amortization

PFLEIDERER GROUP'S KEY EVENTS AND ACHIEVEMENTS IN 2018 AND TILL THE DATE OF PUBLICATION OF THIS REPORT

Subsequent events

CHANGES IN THE MANAGEMENT BOARD

On 20 March 2019 Mr. Dirk Hardow submitted a resignation from the Management Board of the Company. The resignation takes effect on 31 March 2019.

On the same day the Supervisory Board of the Company decided to appoint to the Management Board: Dr. Frank Herrmann as Chief Operating Officer and Mr. Stefan Zinn as Chief Commercial Officer. The above appointments take effect from 1 May 2019.

CHANGES IN SUPERVISORY BOARD

On 31 January 2019 Mr. Florian Kawohl submitted his resignation from the position of the member of the Company's Supervisory Board with effect as of the date of the appointment by the general meeting of shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.
The resignation became effective on 7 February 2019 i.e. on the date of appointment by the General Meeting of Shareholders new members of the Supervisory Board in place of the members who submitted the resignations. On 7 February 2019 the Extraordinary General Meeting of Shareholders of the Company appointed to the Supervisory Board Mr. Julian von Martius in place of Mr. Florian Kawohl.

Q4, 2018

CHANGES IN THE MANAGEMENT BOARD

On 17 December 2018 Mr. Ivo Schintz submitted a resignation from the Management Board of the Company which takes effect on that day.

CHANGES IN SUPERVISORY BOARD

Also on 17 December 2018 the Management Board of Pfleiderer Group S.A. received the resignation letter from Mr. Jason R. Clarke regarding the resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment of a new member of the supervisory board of Pfleiderer Group S.A. in his place.

The resignation became effective on 7 February 2019 i.e. on the date of appointment by the General Meeting of Shareholders new members of the Supervisory Board in place of the members who submitted the resignations. On 7 February 2019 the Extraordinary General Meeting of Shareholders of the Company appointed to the Supervisory Board Mr. John Brantl in place of Mr. Jason R. Clarke.

Q3, 2018

BUY BACK

On 24 August 2018 the Company purchased 7 543 268 treasury shares. The treasury shares were purchased in connection with the implementation of the treasury shares repurchase programme approved under the resolution of the Company's Annual General Meeting of the Shareholders dated 11 June 2018. The total number of treasury shares purchased by the Company at the date of publication of this report is 12 940 201, representing approximately 20% of the Company's share capital.

AMENDMENTS TO EXTERNAL FINANCING

On 31 July 2018, the Senior Facilities Agreement originally dated 13 April 2017 was amended and restated. The total amount of senior secured term loan B increased by EUR 95 million from EUR 350 million to EUR 445 million, the volume of the Revolving Credit Facilities remains unchanged. Final maturity dates within the senior facilities agreement remain unchanged.

Q2, 2018

DIVIDENDS

The Ordinary General Meeting of Shareholders of the Company resolved on 11 June 2018 to allocate the net profit for the period from 1 January to 31 December 2017, amounting in total to PLN 415 542 thousand, as follows:

a) in the amount of PLN 71 164 888.80, i.e. PLN 1.20 per share, to the payment of dividends to the Company's shareholders,
b) the remaining amount to the Company's supplementary capital.

The Ordinary General Meeting of Shareholders of the Company set the date used to prepare the list of shareholders eligible to receive the above dividend (record date) for 17 June 2018. The dividend payment date was set for 11 July 2018.

APPOINTMENT OF MEMBERS OF SUPERVISORY BOARD

On 11 June 2018 the Ordinary General Meeting of Shareholders appointed to the Supervisory Board for the new term of office the following persons: Zbigniew Prokopowicz, Michael F. Keppel, Jason R. Clarke, Florian Kawohl, Anthony O'Carroll, Krzysztof Sędzikowski and Jan Woźniak. On 11 June 2018 the Supervisory Board appointed Zbigniew Prokopowicz the Chairman of the Supervisory Board and Michael F. Keppel and Jason R. Clarke the Deputies Chairman of the Supervisory Board.

BUY BACK

The Ordinary General Meeting of Shareholders of the Company adopted on 11 June 2018 the resolution on the approval of a treasury share repurchase programme and the establishment of the capital reserve for the purposes of such programme and the resolution regarding the acquisition by the Company of treasury shares for the purpose of their redemption. After the balance sheet date, on 24 August 2018 the Company purchased 7 543 268 treasury shares, representing approximately 11.66% of the share capital. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 4 August 2018. The purchase price for the treasury shares amounted to PLN 40 per one share. The total price for all of the purchased shares amounted to PLN 301 730 720.

Q1, 2018

CHANGES IN THE MANAGEMENT BOARD

On 27 February 2018, the Supervisory Board of Pfleiderer Group S.A., has appointed Dr. Nico Reiner as the new Board Member and Chief Financial Officer starting 1 April 2018. Dr. Nico Reiner replaced Richard Mayer, who decided not to extend his contract.

BUY BACK

On 18 January 2018 Management Board resolved to determine the detailed terms of the repurchase of the shares of Pfleiderer Group S.A. The detailed terms of the buy-back were also approved on this date by the Supervisory Board.

On 7 February 2018 the Company purchased 2 150 883 treasury shares, with a nominal value of PLN 0.33 each. On 27 February 2018 the Company purchased 11 000 treasury shares, with a nominal value of PLN 0.33 each. Apart from the above mentioned purchased shares, the Company holds 3 235 050 treasury shares in the Company, which in total represents approximately 8.34% of the Company's share capital.

APPEALS AGAINST THE OCCP DECISION

On 29 January 2018 the Management Board of Pfleiderer Group S.A. informed that the company and its subsidiary Pfleiderer Wieruszów Sp. z o.o. filed the appeals against the Decision of the President of the Office of Competition and Consumer Protection.

KEY INFORMATION ABOUT THE GROUP

1. KEY GROUP HIGHLIGHTS

1.1. BUSINESS PROFILE – ACTIVITIES OF THE GROUP

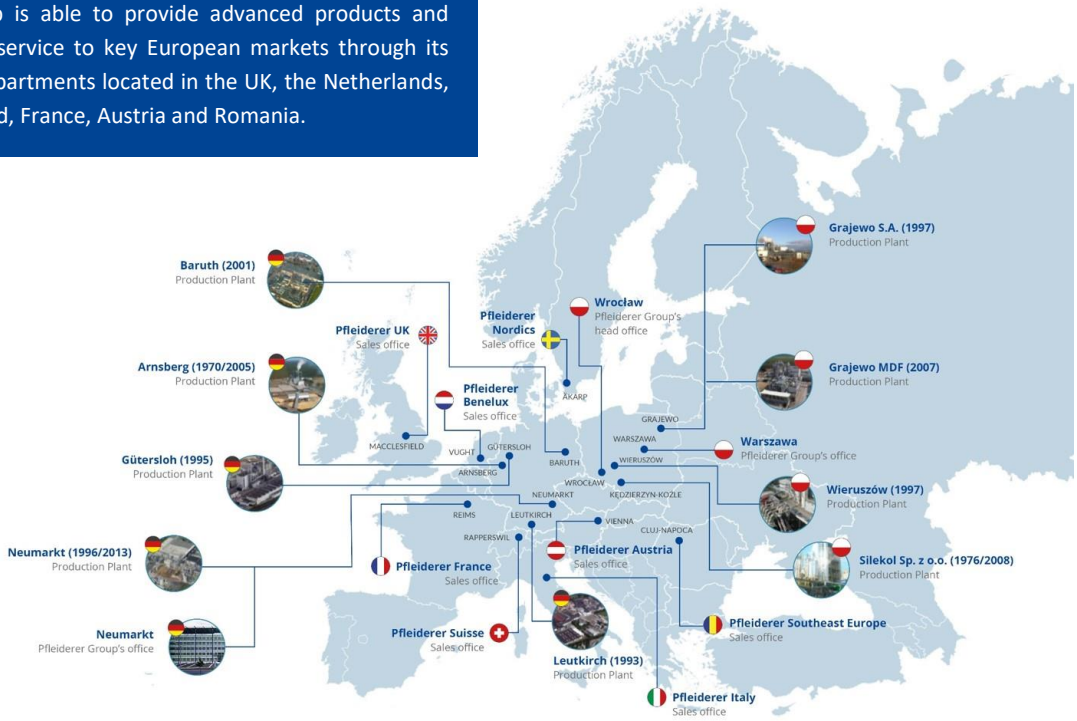
The Pfleiderer Group, with 124 years of experience, is a leading European manufacturer of wood products, specialising in the production of materials for the furniture industry, the interior industry and construction.

Pfleiderer Group provides furniture boards, kitchen worktops, HPL laminates and artificial wall coverings to the biggest furniture manufacturers in Poland and DACH (Germany, Austria and Switzerland) and several thousand medium and smaller companies in the furniture industry. Pfleiderer products are known across the eastern and southern Europe and in Scandinavia. The company is headquartered in Wrocław (Poland) with offices i.a. in Neumarkt, Silesia and Warsaw and operates nine manufacturing facilities in Poland and Germany as well as commercial departments in the UK, the Netherlands, Switzerland, France, Austria and Romania. Sustainability is an integral part of our corporate strategy, Pfleiderer sees it as a necessity to conserve energy and raw materials, reduce emissions and produce environmentally friendly products.

The Pfleiderer Group consists of entities with varying profiles of activity.

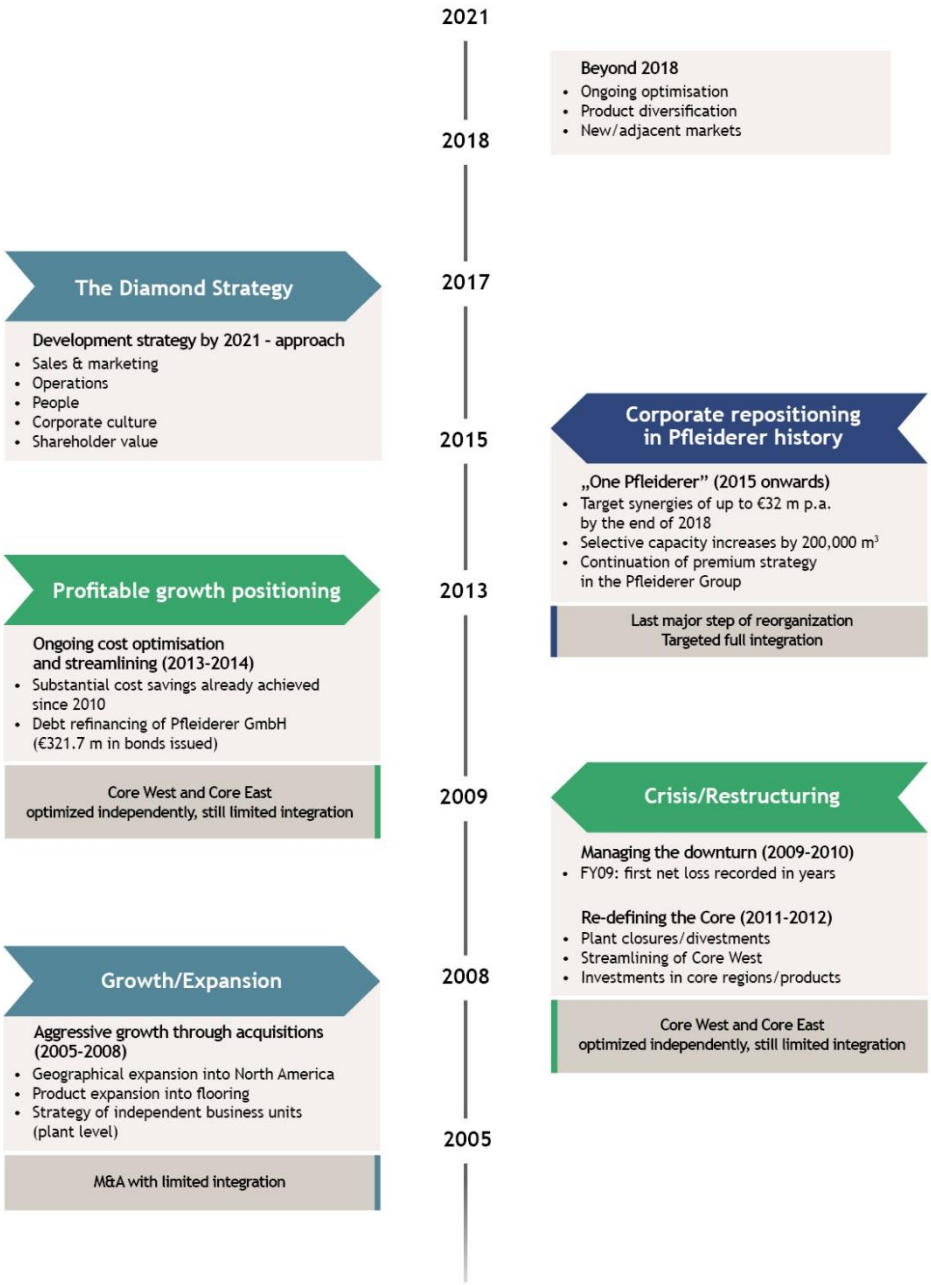
FIGURE 1: PFLEIDERER GROUP ENTITIES

The Group is able to provide advanced products and customer service to key European markets through its service departments located in the UK, the Netherlands, Switzerland, France, Austria and Romania.



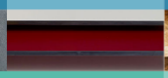
Company history contains many pivotal moments to retain its leading position in the wood-based panel industry and construction market. It all began more than 120 years ago.

FIGURE 2: PFLEIDERER GROUP CORPORATE HISTORY



Pfleiderer Group has developed an extensive product range focusing on value-added products.

FIGURE 3: PRODUCT RANGE

		VALUE-ADD PRODUCTS		BASIC PRODUCTS[2]		OTHER
		MELAMINE-FACED CHIPBOARD (MFC)	HIGH PRESSURE LAMINATES (HPL) / ELEMENTS	RAW PARTICLEBO-ARD (RAW PB)	MEDIUM-DENSITY/ HIGH DENSITY FIBRE-BOARD (MDF/HDF)	OTHER PRODUCTS: ELECTRICITY[1], RESIN SILEKOL, IMPRE-GNATION PAPER, EDGES AND PAPER FOILS
PRODUCTS						
% OF SALES (2018)		64%		30%		6%
MANAGEMENT'S VIEW OF PROFITABILITY		HIGHER AND MORE STABLE	EVEN HIGHER AND MORE STABLE	LOWER	EVEN LOWER	
MAIN APPLICATIONS	FURNITURE & INTERIORS	✓	✓	✓	✓	
	CONSTRUCTION	✓	✓	✓	✓	
	SHOP FITTING	✓	✓	✗	✗	
	LAMINATE FLOORING	✗	✗	✗	✗	

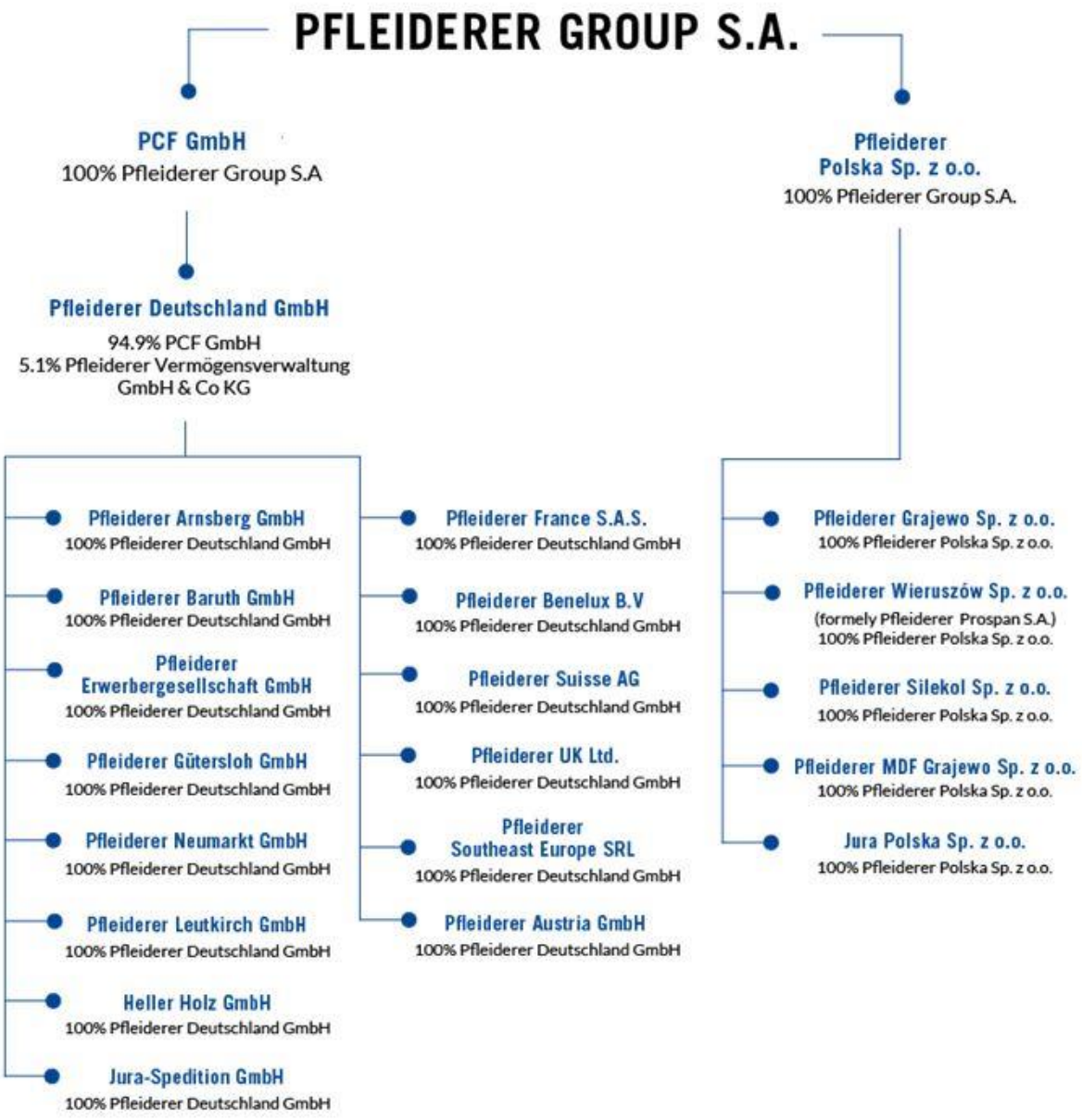
[1] Electricity generated as by-product of cogeneration plants and sold through the market
[2] Basic products relate to commodity products (i.e. raw particleboard, medium-density fibreboard and high-density fibreboard)
Source: Pfleiderer, Association of German Timber Industries (VHI)

1.2. GROUP STRUCTURE

The Pfleiderer Group consists of single-platform businesses. The Group's parent company i.e. Pfleiderer Group S.A. ("Parent Company", previously Pfleiderer Grajewo S.A.) operates in Wrocław.

At the date of this report, the structure of the Group is as follows:

FIGURE 4: OPERATING STRUCTURE OF THE GROUP AS OF 24 APRIL 2019



1.2.1. PFLEIDERER GROUP COMPANIES AND THEIR BUSINESS ACTIVITIES

The Group consists of the holding company, which is responsible for governing the Pfleiderer Group, operating companies and production companies.

The Parent Company and holding company of the Group is Pfleiderer Group S.A., registered in Poland, with its shares being publicly traded.

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

On 30 September 2017 the District Court of Białystok registered a change in the Company's name and registered office. The Company's name was changed from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. The Company's registered office was moved from Grajewo to Wrocław. Thesechanges were made under resolution no 9 of the Ordinary GeneralMeeting on 29 June 2017.

The Company's headquarters are located in Wrocław, at Strzegomska St. 42AB.

In accordance with the Polish Classification of Business Activities, the Parent Company's business is registered under No. 1621Z. The business activity of Pfleiderer Group S.A. is manufacture and veneering of wood and wood-based products, paper refine, domestic and foreign trade, rendering industrial services related to its core business, as well as other services. The Company conducts holding services and other financial services.

TABLE 1: LIST OF THE GROUP'S ENTITIES WITH THEIR ACTIVITIES (AT THE TIME OF THE REPORT'S PUBLICATION):

Activities	Company	
Holding entities	**Pfleiderer Group S.A., Wrocław, Poland** – holding company of Pfleiderer Group	
	PCF GmbH, Neumarkt, Germany - holding company for West Segment entities	
	Eastern Europe	**Western Europe**
Distribution	**Pfleiderer Polska Sp. z o.o.,** Wrocław, Poland	**Pfleiderer Deutschland GmbH,** Neumarkt, Germany
Production of boards	**Pfleiderer Grajewo Sp. z o.o.,** Grajewo, Poland	**Pfleiderer Neumarkt GmbH,** Neumarkt, Germany
	Pfleiderer Wieruszów Sp. z o.o., Wieruszów, Poland	**Pfleiderer Gütersloh GmbH,** Neumarkt, Germany
	Pfleiderer MDF Grajewo Sp. z o.o., Grajewo, Poland	**Pfleiderer Leutkirch GmbH,** Neumarkt, Germany
		Pfleiderer Arnsberg GmbH, Neumarkt, Germany
		Pfleiderer Baruth GmbH, Neumarkt, Germany
Transportation	**Jura Polska Sp. z o.o.,** Grajewo, Poland	**Jura-Spedition GmbH,** Neumarkt, Germany
Sales agency		**Pfleiderer France S.A.S.,** Reims, France

		Pfleiderer Benelux B.V., Deventer, Netherlands
		Pfleiderer Suisse AG, Rapperswil, Switzerland
		Pfleiderer UK Ltd, Macclesfield, United Kingdom
		Pfleiderer Austria GmbH, Vienna, Austria
		Pfleiderer Southeast Europe SRL, Bucharest, Romania
Wood delivery		**Heller Holz GmbH,** Neumarkt, Germany
Production of glue and other	**Pfleiderer Silekol Sp. z o.o.,** Kędzierzyn-Koźle, Poland	
Other	**Unifloor Sp. z o.o.,** Wieruszów, Poland (in liquidation)	**Pfleiderer Erwerbergesellschaft mbH,** Neumarkt, Germany
		Pfleiderer Vermögensverwaltung GmbH & Co. KG, Neumarkt, Germany **Pfleiderer Infrastrukturtechnik GmbH & Co. KG,** Neumarkt, Germany (in insolvency)
		Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH, Düsseldorf, Germany (in insolvency)
		Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH, Aulendorf, Germany (in liquidation) **Blitz 11-446 GmbH,** Neumarkt, Germany (in liquidation)

1.2.2. DESCRIPTION OF CHANGES TO THE GROUP'S STRUCTURE IN THE REPORTING PERIOD

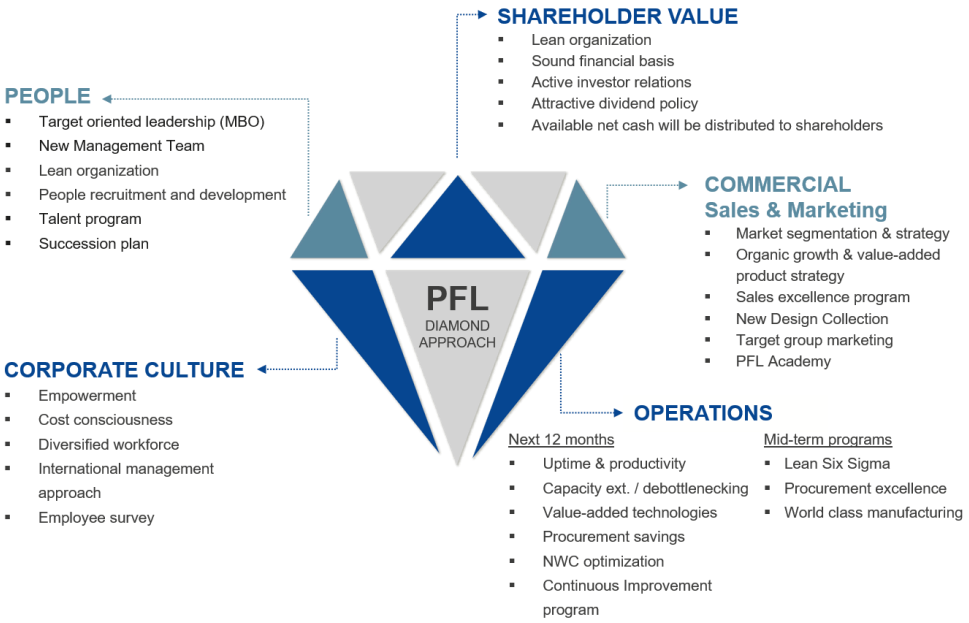
Beginning from 1 January 2017 all sales activities of Pfleiderer Group are concentrated in two sales entities: Pfleiderer Polska Sp. z o.o., which is responsible for all customers allocated to the "East" sales territory and Pfleiderer Deutschland GmbH, which is responsible for all customers allocated to the "West" sales territory.

In 2018 there were no changes to the group structure.

1.3. PFLEIDERER GROUP STRATEGY

In September 2017, the management board of Pfleiderer Group S.A. presented the top-down "Diamond Strategy" for the company's long-term orientation. Ambitious initiatives and targets along the five dimensions Commercial, Operations, People, Corporate Culture and Shareholder Value were introduced to strengthen our competitiveness and accelerate further shareholder value growth.

PFLEIDERER STRATEGY – THE DIAMOND APPROACH



In 2018, Pfleiderer teams detailed and further developed initiatives to achieve these goals in a bottom-up detailing of the strategy plan. At the heart of this strategy plan lies our new commitment to reach revenues of EUR 1.3 billion and EBITDA margin of over 16% by 2021. To capture the full potential of our strategy, we have now set up an implementation program that is currently being rolled-out across the organization.

A bottom-up detailing of our strategy plan allowed us to **confirm our ambition to reach EUR 1.3 b and over 16% EBITDA margin by 2021**

Our **focus on commercial excellence enables further business growth** and helps to strengthen our top market position

We have identified and will seize **sales opportunities in new market segments and geographies**

Our **strong innovation pipeline of new products** supports our ambition for further growth in **existing and new segments**

We will drive **operational and procurement efficiency**, aiming for continuous **margin improvement**

Over the coming years, we plan to implement at least 12 major initiatives, organized in three Workstreams (Commercial, Operations and Poland), that are sponsored by members of the management board.

Strengthening our core business, while growing in adjacent products, markets and segments

The Group will strengthen its commercial excellence with the introduction of new tools that facilitate smart customer segmentation and improved pricing through margin transparency. In light of our strong, long-standing customer relationships, this will allow us to grow our business with existing customers. At the same time, it enables our targeted approach to realize selected opportunities with new customers in core segments.

In addition, we expect a large share of top-line expansion in 2019 to originate from growth in high-potential market segments and geographies currently not or underserved by Pfleiderer that can be tapped using our structured, repeatable approach for market entry and unique value proposition. Our strong innovation pipeline of new and add-on products supports this growth and we will see continuous upside from our high-margin value-added products that give Pfleiderer an edge over its competition. With the addition of our new Leutkirch lacquering line, we have created a strong basis for expanding our portfolio to new decors and surfaces that not only satisfy, but also shape our evolving customer needs.

Increasing operational efficiency and optimizing procurement spend

Pfleiderer Group's ongoing operational efficiency improvement program continues to have a significant, positive contribution to our operating results. Now organized in dedicated initiatives, it is rolled out to all production areas given its proven success, i.e. in our PB, MDF and HPL lines. The program aims to optimize cost with focus on output increase through productivity and uptime measures as well as continuous reduction of direct material consumption through operational improvements. Increasing the share of more cost-efficient recycling wood to the maximum technical capacity across selected plants is just one example of how our improvements in operational efficiency will be a major driver of bottom-line growth.

Our efforts to maximize operational efficiency are complemented by a procurement excellence program, which includes a systematic review of direct and indirect spending across all Pfleiderer business functions. Relevant potential for continuous improvement has been identified and the program is set to deliver sustainable savings over the coming years.

Growing our specialized Polish business

The comprehensive bottom-up detailing of our strategy plan for Poland-specific initiatives revealed particular upside potential in our Silekol business. Beyond its high-quality supply to our production, its external customers also recognize Silekol as a leading manufacturer of resin adhesives and hardeners. It is our plan to expand this adjacent business with the addition of new and improved products, underlining Pfleiderer's successful downward integration and position at the forefront of our industry's innovation.

Stable capital expenditures to support sustainable, organic growth

We will continue to make strategic investments into capacity expansion across our lines and foresee capital expenditures into new tools that enable our full-potential strategy.

1.4. INVESTMENT PROGRAMME

In 2018 Pfleiderer Group incurred EUR 80 491 thousand of capital expenditures.

TABLE 2: CAPEX 2018 – MAIN PROJECTS AT THE GROUP LEVEL

Investment	Capex (EUR m)	Description, start – finish of the investment	Ramp up / Start of operation	Expected outcome (EUR m EBITDA p.a.)
Recycled wood Neumarkt	10.8	Increasing consumption of recycled wood **03.2017 – 10.2018**	Q1 2018	**5.0**
Lacquering line Leutkirch	13.7	New functional surface technology, new high gloss and dull surfaces **12.2016 – 10.2018**	Q1 2018	**9.6**
Plant concept Leutkirch	22.5	Increase production volume for raw particleboards. Installation new drying area incl. new dryer and hot gas generator **06.2017 – 06.2019**	Q1 2019	**8.1**
New KT press line Grajewo	8.4	Increase volume of laminated particle boards in large format **04.2018-12.2019**	H2 2019	**3.1**

1.5. MARKETING ACTIVITIES IN 2018

In 2018, the Group's marketing focus is mainly on official rollout of ONE PFLEIDERER and ONE COLLECTION as well as the introduction of PrimeBoard (high-quality lacquered surface in matt and high-gloss finishes) and Duropal *XT*erior compact. In addition to the usual marketing materials such as brochures and samples, this product launch also included special pages on the website, high-quality sample folders and a marketing movie.

TABLE 3: AWARDS GIVEN TO THE PFLEIDERER GROUP IN 2018

Date	Award	Product/Category	Institution
2018	Red Dot Award: Product Design 2017	*XT*ra Worktop	Rat für Formgebung Service GmbH
2018	KitchenInnovation of the year	*XT*ra Worktop	Initiative LifeCare
2018	MERCURY Awards 2017/18	Customer Magazine	Mercury Excellence Awards // Bronce
2018	German Brand Award	Industry Excellence in Branding	Rat für Formgebung Service GmbH
2018	Orły Wprost	"Wprost" Eagle for the largest companies	Wprost weekly magazine
2018	Pro-K Award	*XT*ra	pro-K Industrieverband Halbzeuge und Konsumprodukte aus Kunststoff e.V.
2018	Iconic Award Innovative Architecture	*XT*erior compact	Rat für Formgebung Service GmbH

Pfleiderer will take part on the following fairs in 2019:

- Bau, Munich
- SIG, Poland
- PSB, Poland
- Interzum, Cologne
- Siec Budowlana Krakow
- Forum Holz, Warsaw
- Forum Holz, Cologne
- MTKT, Ukraine
- Forum Holz, Garmisch
- Architects Expo, Bangkok
- SICAM, Pordenone
- Surface Design Show, London
- Branchentag Holz
- Kitchen & Bath, Shanghai
- Architect@Work, Zürich
- Architect@Work, Paris
- Architect@Work, Düsseldorf
- Bouwboers, Netherlands
- Seatrade, Fort Lauderdale
- Marinetec, Shanghai)
- CSI, Miami
- Design District; Netherlands
- Surface Material Show, Birmingham

1.6. INNOVATIONS

Pfleiderer continued to invest into innovation actions in 2018 to offering our customer high quality, value added product. Continues improvement of the established innovation process support higher efficiency across the organization and ensure that our solution will be launched on the market in the right time.

We are interested in co-operation projects with our customers and partner. The best way to make perfect product is creating product that's exactly meet customer needs. Development of high gloss and super matt surfaces for interior application is an Example to responding market trend and demand. The lacquering line in Leutkirch is the first production line with a combination of hot melt application and inert calander coating. This high-stage technology give the possibility to obtaining real and deep mirror effect.

The next product from this line is UV-resistant HPL compact for outdoor application which allows to develop of new segments and customer groups. With COM XTerior we can offer our customer easy to clean and structured surface with long life time.

In the beginning of 2019, we plan to launch decorative façade with math surfaces. This product will open for Pfleiderer next segment with high growth potential.

The annual budget for external expenses related to project expenses supporting development of sustainable, healthy and ecological product is planned at EUR 250 thousand.

We continue innovation actions to meet customer needs and offer them the best solution on the market. Only fully understanding customer needs give the assurance of development the proper product and increasing profitability.

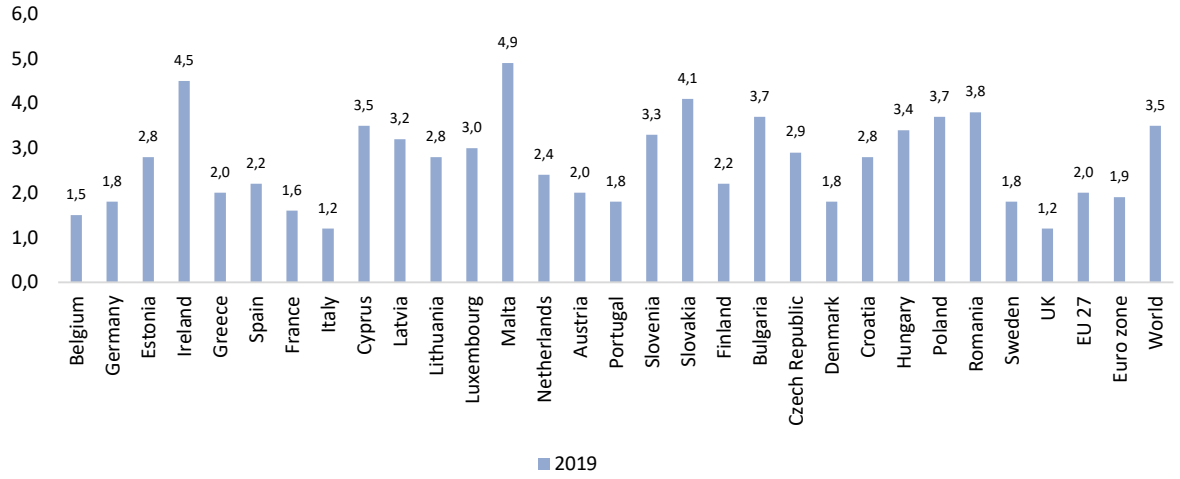
1.7. MARKET POSITION AND CONSTRUCTION MARKET OVERVIEW

Macroeconomic situation in autumn 2018

According to the European Commission's latest forecasts1 European economy has switched into lower gear. GDP growth in the euro area is expected to decrease from 2.1% in 2018 to 1.9% in 2019 and 1.7% in 2020. Slowing down of world trade dynamic and higher oil prices can have a dampening effect on economic growth.

Nevertheless it's expected that still improving labor market, slightly stronger wage growth and expansionary fiscal measures in some countries should help to continue unemployment falling, consumption keeping and economy growing, also with favorable financing of investments.

FIGURE 5: GDP GROWTH IN 2019 – est. (Y/Y IN %)



Source: European Commission, European Economic Forecast Autumn 2018

In Germany the strong labour market and sufficient fiscal capacity are expected to support domestic demand and keep growth momentum. On the other hand investment growth is likely to weaken due to the increase in uncertainty surrounding global trade and the automotive sector.

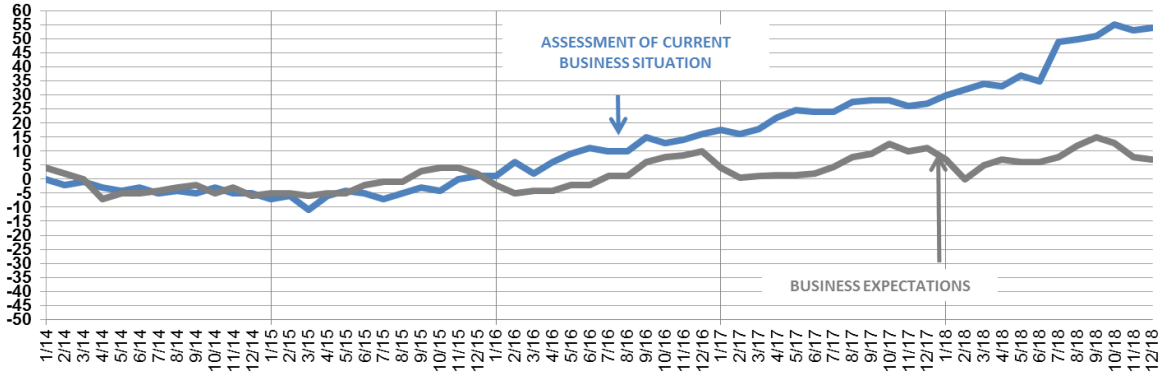
In Poland main driver of growth shall be private consumption, however its dynamics will gradually fade. Public investment activity is forecasted to remain strong due to support of EU funds, private investment is set to strengthen.

Business climate in construction

German construction business In Q4 of 2018 was stabilizing with business climate. Assessment of current situation was kept at the level of Q3, however moods in the branch related with the nearest future have declined a little bit since September.

[1] Autumn 2018 Economic Forecast, EuroCom

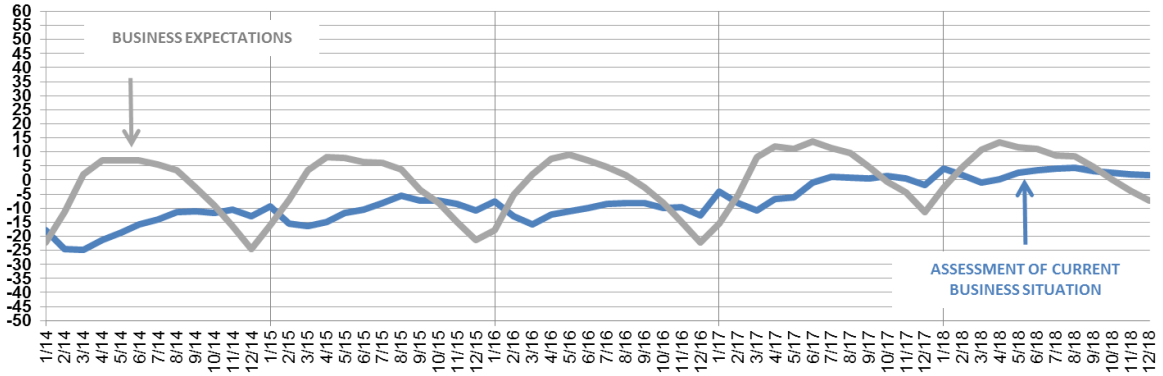
FIGURE 6: BUSINESS CLIMATE IN CONSTRUCTION – GERMANY



Source: own calculation based on ifo

Similarly to German market, in Poland Q4 of 2018 brings also stabilization in perception of current situation. Perspectives for future months are still getting worse. Next months will show however if it's typical seasonal change, or if we'll have to face more serious concerns of representatives of the branch.

FIGURE 7: BUSINESS CLIMATE IN CONSTRUCTION – POLAND



Source: own calculation based on GUS

Market dynamic

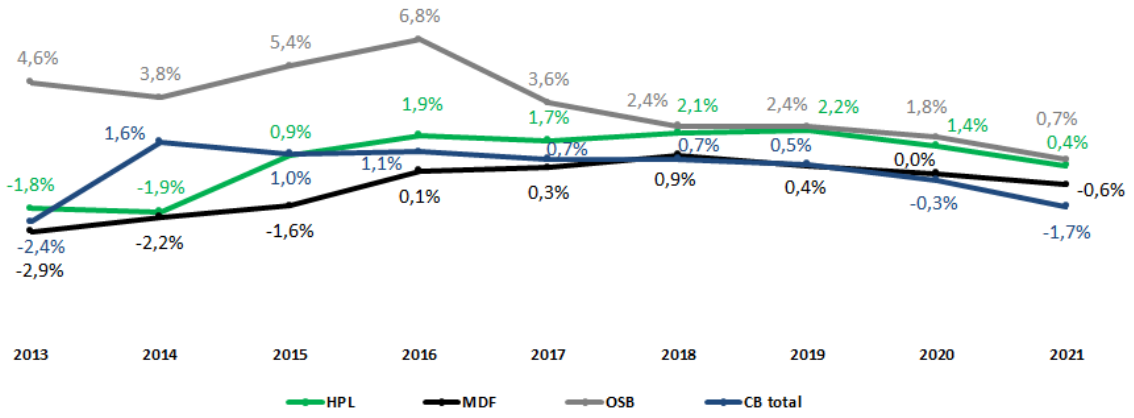
Pfleiderer strongly builds its position in furniture and construction market. The last one includes not only residential and non-residential objects, but also interior design. In terms of product portfolio the reference points are chipboard, laminate, MDF and OSB markets.

DACH market characterises higher saturation and, as a consequence, lower growth dynamic than one can notice on Polish market. Nevertheless 2019 should bring further growth of demand, even if not so visible like in 2018. In 2020 market is expected to stabilize but next years might bring slight slowing down.

Also on Polish market 2018 and 2019 are expected to be years with the best growth dynamic. Positive (although declining) tendency should be visible here a little bit longer - till 2021.

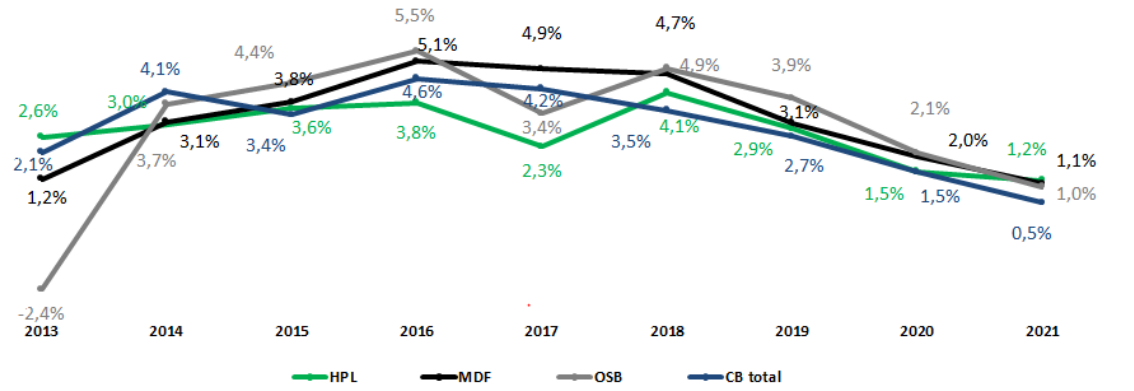
On both markets the highest demand growth in 2019 I expected on OSB market. In Germany also HPL and elements should have relatively high dynamic. In Poland higher sales growth is expected on chipboard market.

FIGURE 8: MARKET SIZE DYNAMIC (VOLUME) – DACH



Source: own calculation based on reliable construction & furniture market data provider

FIGURE 9: MARKET SIZE DYNAMIC (VOLUME) – POLAND

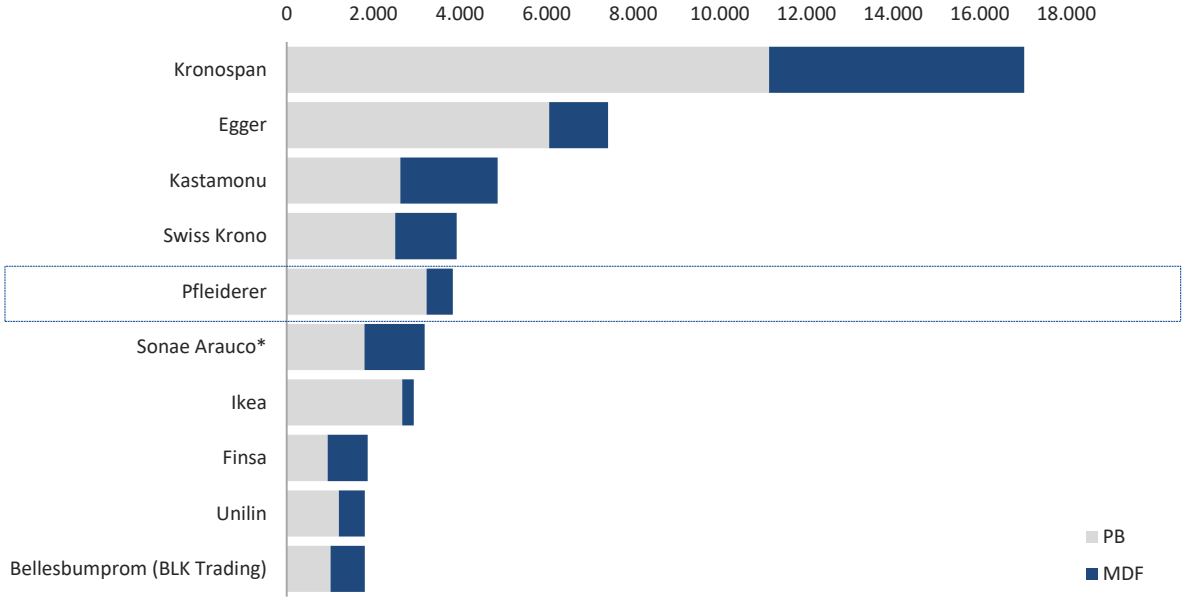


Source: own calculation based on reliable construction & furniture market data provider

Production capacity position in Europe (incl. Russia and Turkey)

Pfleiderer is a leading wood-based panel player on its core markets – Germany (no. 1) and Poland (no. 2), with competitive footprint in Europe (incl. Russia and Turkey), where Pfleiderer Group is one of the TOP 5 players.

FIGURE 10: PRODUCTION CAPACITY IN EUROPE – TOP 10 PLAYERS x 1 000 m3



*Sonae Arauco (50%/50% shares of Sonae Industira/Arauco)

Source: own calculation (based on reliable market data provider and press news)

Construction markets development perspective

Construction business at core markets, in Poland and DACH countries, is expected to grow. DACH market is bigger, Polish market develops more dynamically (at the background of other European countries, Poland is one of most dynamically developing markets). Till 2019 one can expect average yearly growth rate at level of 0.4% for DACH and 3.8% for Poland.

TABLE 4: AVERAGE YEARLY GROWTH OF CONSTRUCTION MARKET IN 2017-2019

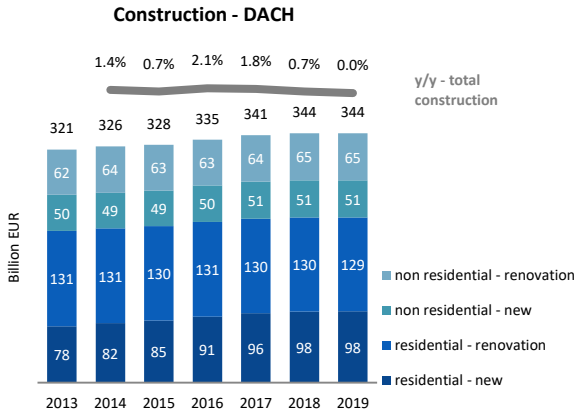
CAGR 2017-2019			
	Total	Residential	Non-residential
Poland	3.8%	4.2%	3.5%
DACH	0.4%	0.4%	0.3%
Germany	0.0%	0.3%	-0.5%
Austria	1.3%	1.3%	1.4%
Switzerland	1.5%	0.3%	3.1%
France	3.2%	3.6%	2.7%
Italy	1.8%	1.6%	2.0%
United Kingdom	0.5%	1.1%	0.0%
Belgium	1.7%	1.6%	1.8%
Netherlands	3.8%	3.8%	3.7%

Source: own calculation based on reliable construction market data provider

Drivers of construction core markets – DACH and PL

In DACH countries construction market is driven more by residential construction. Opposite to the market is Poland, driven mostly by non-residential buildings. German language speaking countries markets are based mostly on renovation

construction (in residential and non-residential building). In Poland there's different situation – new buildings takes bigger part of the construction business.



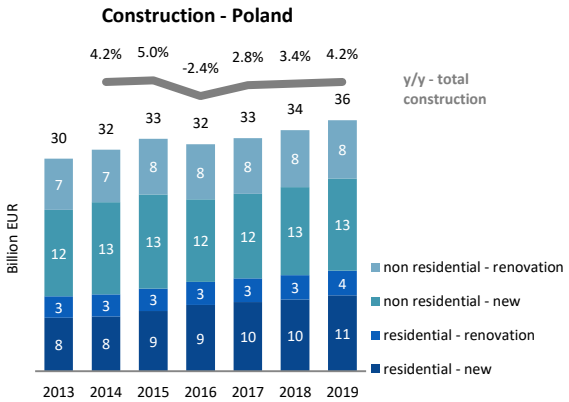
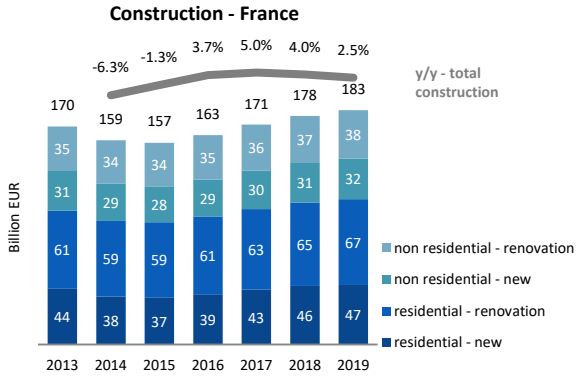


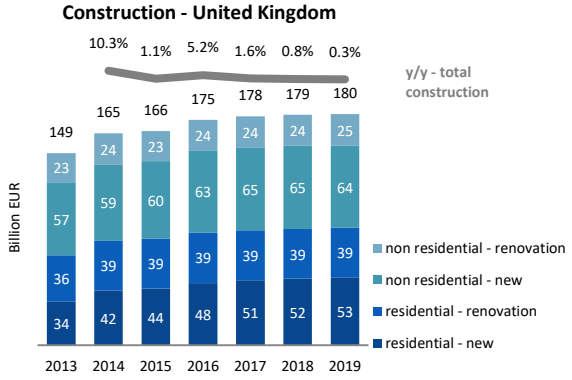
FIGURE 11: TOTAL CONSTRUCTION – DACH AND POLAND

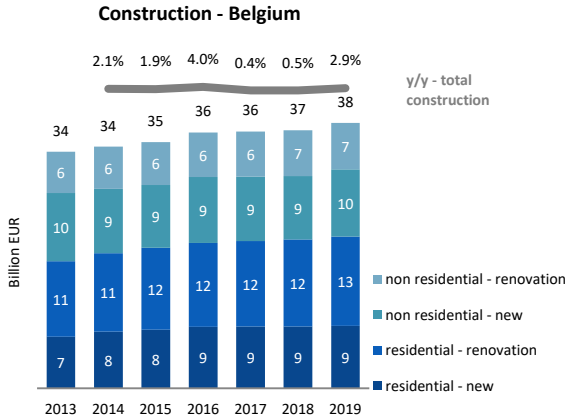
Drivers of construction markets – other countries

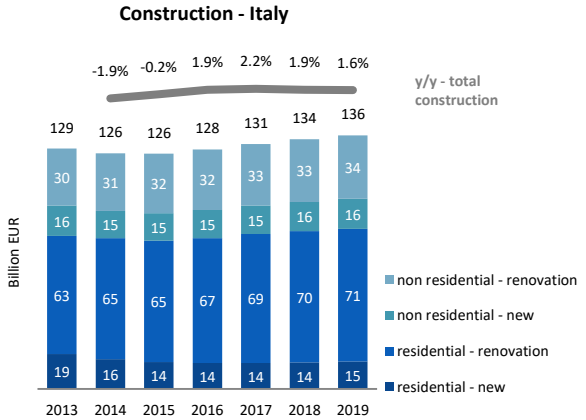
Construction market in France, Italy, Netherlands and Belgium is driven more by residential building and especially renovation works. Construction business in UK is equally based on residential and non-residential housing, and similarly to Poland – new buildings play bigger role here.

FIGURE 12: TOTAL CONSTRUCTION – OTHER COUNTRIES









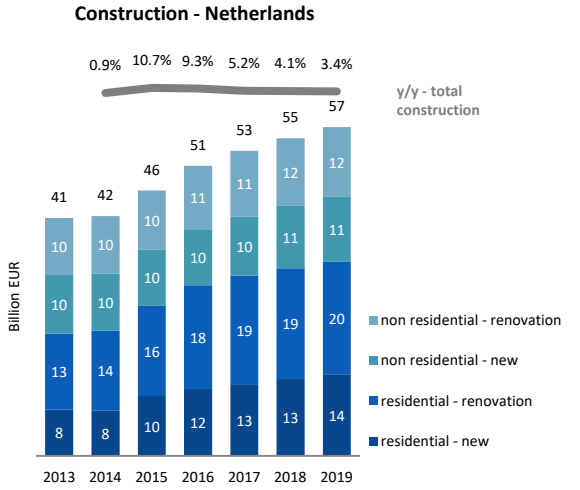
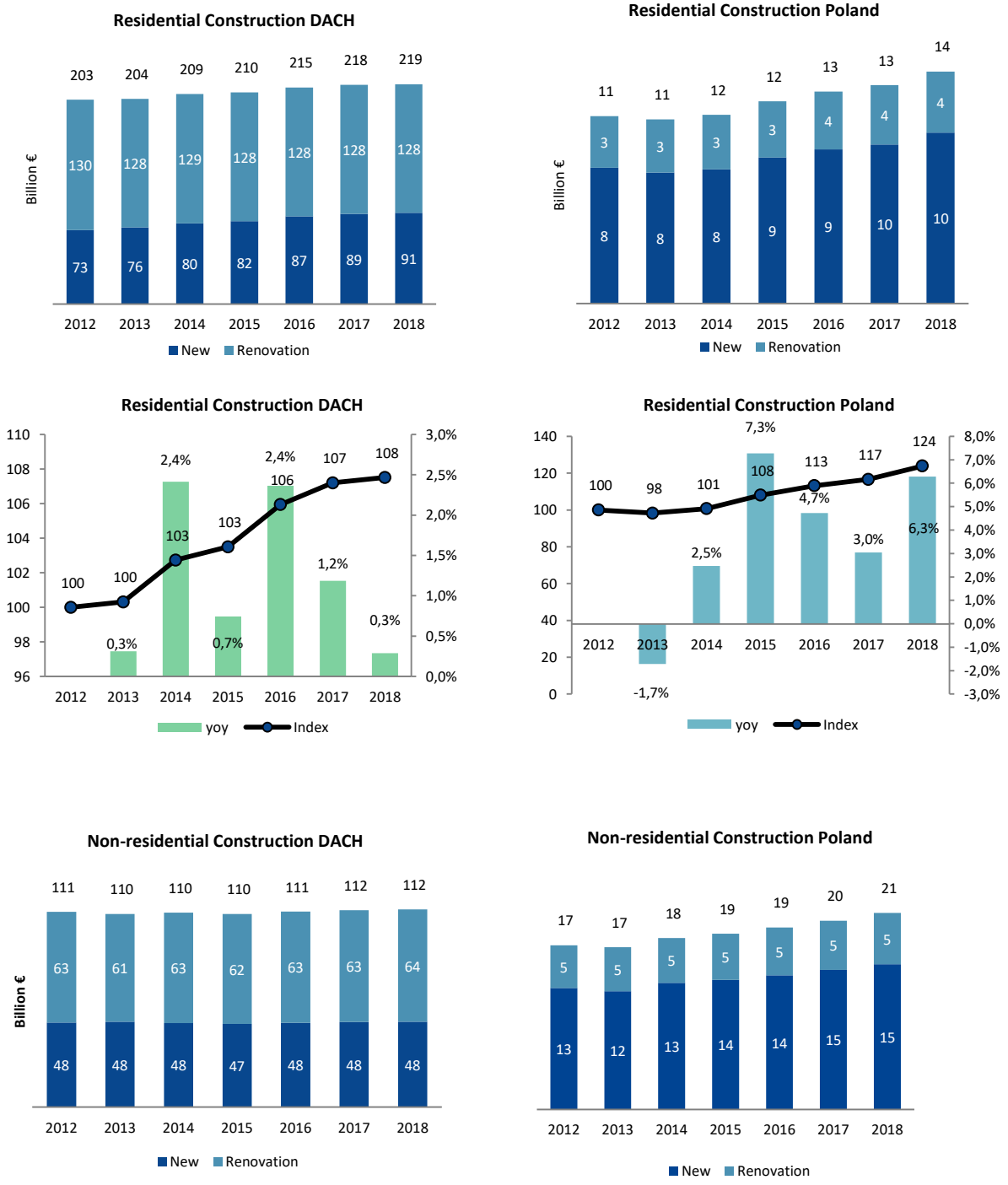


FIGURE 13: RESIDENTIAL AND NON-RESIDENTIAL CONSTRUCTION



Source: Reliable construction market data provider

1.4. INTERNAL AND EXTERNAL FACTORS AFFECTING THE GROUP'S BUSINESS

External factors affecting the Group's business:

- Broader collaboration with customers, based on long-term framework agreements, providing the parties with an assurance of stable cooperation and long-term development.
- Customer insolvency risk – the Group monitors the financial liquidity of its customers on an ongoing basis and mitigates the risk by using trade credit insurance.
- Close cooperation with suppliers – key raw materials purchased by the Group including wood and wood waste, decorative paper, chemical substances, and machine parts. The Group mitigates the related risk by using diversified sources of supplies. Higher prices of raw materials affect the Group and its competitors and therefore have no adverse impact on the Group's competitive position.
- Currency risk – the Group monitors its exposure to exchange rate fluctuations on an ongoing basis and relies on natural hedging and forward transactions to hedge the risk.
- Seasonality – sales typically fall in the second quarter and peak in the second half of the calendar year. Seasonal changes do not give rise to a significant risk for the Group as lower sales in the period are accompanied by lower purchases of raw materials.
- Capacity development and utilisation rates – major capacity changes in the market due to investments / divestments by competitors have an impact on the overall utilisation rates of locally competing production sites. On top of that, the overall market conditions i. a. driven by GDP development, construction growth rates and the performance of the furniture industry have an immediate impact on the wood-based panel industry and consequently on utilisation rates.

Internal factors affecting the Group's business:

- Technological process – the technologies implemented by the Group result in exposure to fire hazard. To mitigate the risk, the Group uses a number of technical and organisational safeguards. The risk of unplanned downtime is reduced through the implementation of annual maintenance and modernisation programmes as well as maintaining a strategic stock of spare parts.
- Liquidity risk – as the Parent Company, Pfleiderer Group S.A. organises financing of investment projects. The debt level is monitored on an ongoing basis. To mitigate liquidity risk, the Group uses a full spectrum of available financial instruments.

1.5. RISK MANAGEMENT

All entrepreneurial activity is inextricably linked with risk. For this reason, effective management of risks is an important factor for the success of any effort to sustainably safeguard enterprise value. One of the fundamental tasks of management, in accordance with the applicable requirements of corporate governance and the principles of best practice, is the establishment and operation of an effective Internal Control System (ICS), Risk Management System (RMS) and Compliance Management System (CMS).

Like other companies, Pfleiderer Group is also exposed to risks relating to its business activities. The Company confronts uncertainties and constant change in the legislation and regulations in the various jurisdictions relevant to the Pfleiderer Group with a standard, Group-wide control and risk management system and the internal auditing department. These instruments are evolving on an ongoing basis and are adapted to changing conditions.

Within the scope of existing processes, the Company's management and Supervisory Board are regularly informed of risks that could significantly affect the business performance of the operating divisions and the Group.

The risks are assigned to different risk classes based on a risk matrix using the dimensions of "potential loss amount" (less than EUR 5 million, EUR 5-10 million, EUR 10-20 million, and more than EUR 20 million) and "probability of occurrence" (from 1 % "unlikely" via seven levels to 90 % "risk is about to occur"). In turn, these risk classes are classified as "low," "medium," "significant", "serious", or "endangering the Group's continued existence" depending on their impact on net assets, financial position and results of operations. Countermeasures are defined, and the identified risks and countermeasures are actively managed and regularly reviewed.

Central risk areas

In the view of the management at Pfleiderer, the central risk areas comprise risks of developments that would be likely to have a significant impact on the Company's net assets, financial position and results of operations. We have essentially identified the following issues as risks that go beyond the usual market risks (net risk of more than EUR 1 million):

Legal risks:

Past legal violations resulted and could further result in claims for damages against the Pfleiderer Group, the amounts of which could far exceed damage payments associated with the normal course of business and could thus have a serious impact. These risks cannot be quantified based on the evidence and information available at this time. In response to such claims for damages, Pfleiderer pursues legal defenses and court proceedings which it bases on counter-assessments.

Furthermore the decision of the President of the Office of Competition and Consumer Protection no. DOK-3/2017 issued on 28 December 2017 results in a risk of claims for damages against the companies Pfleiderer Group S.A. and Pfleiderer Wieruszów Sp. z o.o. This risk cannot be quantified based on the evidence and information available at this time.

Based on the recently implemented GDPR, Pfleiderer is facing the risk, that in case of a lack of the implementation of necessary measures or in case of a violation of personal data, the data protection authorities may impose a fine to Pfleiderer Group. Potential fines have increased (up to EUR 20 million or 4% of the group's revenues, whatever is higher). This leads to a Potential Loss Amount, which is estimated to be serious. Due to measures taken, Pfleiderer tries to fulfill all obligations. Therefore the occurrence of this risk seems to be rather unlikely.

To prevent market abuse, the EU adopted a market abuse regulation (MAR). It regulates insider dealing, the unlawful disclosure of inside information and market manipulation (market abuse) and also gives measures to prevent it. As Pfleiderer Group S.A. is a listed company, it needs to assess whether an event constitutes an inside information solely and consequently needs to judge if it needs to be published. As Pfleiderer is responsible for the analysis and disclosing of the events and bears the corresponding risks, there is a risk, that other parties might come to a different assessment and accuse Pfleiderer to non-disclosure of relevant insider information. This might lead to a serious potential loss amount, which is rather unlikely to occur after measures like training of the relevant employees or internal audits.

Pfleiderer is also subject to a risk concerning further claims resulted from German insolvency code following the claim from ALNO Aktiengesellschaft ("Alno") described in point 1.7 – part Contingent liabilities – Western Europe. The Group also received payments for deliveries from two subsidiaries of Alno for which the insolvency proceedings were opened in July 2017. It has not been challenged yet but currently this cannot be excluded.

Legal and regulatory risks:

The revised German Renewable Energy Resources Act 2014 (EEG 2014) came into effect on 1 August 2014. Because the new legislation considerably tightened the requirements for use of the (partial) exemption from the EEG reallocation charge, there is a risk that, in the future, one or more companies of the Pfleiderer Group will no longer meet the requirements for partial relief from the EEG, or will not come under what is known as the "hardship rule" [Härtefallregelung]. The likelihood that the EEG relief for hardship cases will cease to apply in the future is considered to be conceivable (after measures) and the loss could be serious. This risk is countered by obtaining external expertise and implementing internal measures to ensure that the stricter conditions are met.

As the FSC (Forest Stewardship Council) Standards have become more stringent, the minimum requirements for wood Pfleiderer uses to produce chipboards also got stricter. Due to a lack of resources and also due to the increased minimum requirements it might be possible that we will not be able to comply with the regulations and therefore might lose our FSC certification. This would mean that we could not meet the requirements of several customers, which corresponds with a serious potential loss amount. However, the probability of occurrence of this risk seems to be occasional.

Titanium dioxide is one of the most important pigments in decorative papers. It is used as a color pigment and filler. Partly the degree of filling is up to 40%. In the course of the REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) process the reclassification of titanium dioxide into class 2 might take place. This would mean that all titanium dioxide-containing dusts and other production residues would be classified as "hazardous waste". The consequences can't be measured at the moment, but they might lead to a medium potential loss amount, which occurrence is estimated to be occasional.

Financial risks:

The Group is exposed to currency risk mainly due to the extent that there is a mismatch between the currencies in which trade transactions, purchases of materials and merchandise and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is primarily Euro (EUR) and Polish zloty (PLN). The main currencies in which foreign currency transactions are denominated are Euro, US dollars and pound sterling (GBP).

However, foreign exchange gains or losses resulting from exchange rate fluctuations mostly offset each other (natural hedging). The potential loss amount, resulting from transaction risks only and not considering any translation risks, is considered to be low and its probability of occurrence is estimated as occasional.

Market and price risks:

In the event of an inadequate R&D strategy, Pfleiderer could lose market share due to a lack of new and innovative products. Insufficient investment in research and development could mean that new product and process development goals are not achieved to an adequate extent. This could result in lower pricing power and consequently an unfavourable development of the Group. Furthermore there is a lack of innovative projects and culture of innovation, which needs to be improved to strengthen our market position. These are regarded as low or medium risks. The Company responded to these risks by realigning and reorganizing its R&D activities and improving the innovation culture.

Due to construction of new production facilities by competitors on north east of Poland there is a risk of declining orders number for the products of Pfleiderer Group entities.

A fairly significant portion of our product range relates to commodities, which are associated with high price volatility. The risk is made up of interchangeability of products, rising material and other costs, like fuel prices, as well as the disappearance of international sales markets. Especially the current situation, that new competitors enter the market/competitors increasing their capacities are demanding for wood, intensifies the wood price increase. The potential loss of the risk is regarded as low but it is about to occur. Furthermore, the wood price is also influenced by demanders from the co-firing industry. As they do not only burn forest waste, but also fully valuable wood like sawmill residue, pulpwood or middle-sized logs, there is a high competition from the side of the power plants. The potential loss amount is estimated to be low, which is also about to occur. Additionally we expect price increases for Methanol caused by the ratio of demand and supply in Europe, just as for Melamine, which price depends on the development of gas and crude oil. Further on, for Urea there are also negative deviations forecasted, which are based on the fact that the prices for it are increasing on all markets. The corresponding potential loss is estimated to be low, but more likely than unlikely to occur due to the implementation of measures, like a continuous market monitoring.

Finally, other economic events, like the withdrawal of countries from the EU, can also influence the business of the company and can lead to a significant potential loss, which is most likely to occur.

Environmental and production risks:

Due to technical defects or a lack of order and cleanliness there is a risk of fire or explosion. The potential loss complies with the deductibles according to the insurance policies for each plant. Therefore the potential loss is evaluated to be serious but rather unlikely to occur.

A lack of replacement investments or maintenance in the past could result in a backlog of maintenance and investment. Insufficient replacement investments and postponed repairs and maintenance work may lead to breakdowns of machinery and production facilities. In conjunction with the distinctive product portfolio of the different plants there is a low risk, which occurrence seems to be occasional.

In addition, investment requirements may arise due to a failure to meet legal requirements, for example in relation to fire safety. This is classified as a significant risk, which is rather unlikely, after implementing measures. If regulations and specifications are not complied with, there is a need to take action.

Operational risks:

Due to the increased occurrence of so-called Fake-President-Frauds at other groups, the Pfleiderer Group intensified their information activities towards the employees. The Pfleiderer Group repeatedly pointed out that, amongst others, nobody – even not board members – is allowed to ask for payments/money transfers via email and nobody within the Group is allowed to circumvent the four-eyes-principle. As it is never ruled out, that an employee makes a mistake, the company is aware, that there is a risk that an employee might execute a payment within the maximum available overdraft limit. Considering the measures in place, the occurrence of the risk is regarded to be rather unlikely with a serious potential loss amount.

1.6. INFORMATION ON MATERIAL AGREEMENTS AND TRANSACTIONS

Material party-related transactions in 2018

For information regarding related-party transactions as at 31 December 2018 and for the period from 1 January to 31 December 2018 see Note 32 in the Notes to the annual consolidated financial statements of Pfleiderer Group S.A. In the period from 1 January to 31 December 2018, all related-party transactions were executed on an arm's length basis.

1.7. COURT PROCEEDINGS

Information related to significant settlement of litigation

As at 31 December 2018 the Group did not identify any significant contingent liabilities except for an additional potential liability (apart from the amounts already recorded in the balance sheet) resulting from the antitrust proceedings and German insolvency code (Alno case) described below.

Contingent liabilities

Eastern Europe:

On 28 December 2017 the President of the Office of Competition and Customer Protection (hereinafter referred to as 'President of the OCCP') issued a decision no. DOK-3/2017 (hereinafter referred to as 'Decision') considering as an anti-competitive practice the conclusion by Kronospan Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Swiss Kronos Sp. z o.o. (formerly Kronopol Sp. z o.o.), Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.) and Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.) an agreement limiting competition on the national market of sales of chipboard and on the national market of sales of fibreboard, consisting in:

1. the fixing of prices of chipboard and fibreboard, which infringes the prohibitions mentioned in Art. 6 sec. 1 point 1 of the Act on Competition and Consumer Protection and Art. 101 sec. 1 a) of the Treaty on the Functioning of the European Union; and
2. the exchange of commercial information on the conditions of sale of chipboard and fibreboard, which infringes the prohibition mentioned in Art. 6 sec. 1 of the Act on Competition and Consumer Protection and Art. 101 sec. 1 of the Treaty on the Functioning of the European Union.

According to the Decision, the agreement was in force from the beginning of 2008 to 7 September 2011.

The President of the OCCP imposed a fine of PLN 15 958 thousand on Pfleiderer Group S.A. and PLN 19 805 thousand on Pfleiderer Wieruszów Sp. z o.o.

The Decision ended the antimonopoly proceedings initiated by the President of the OCCP in 2012. The decision is not legally final. On the 29 January 2018, the Company and Pfleiderer Wieruszów Sp. z o.o. appealed against the Decision to the Court of Competition and Consumer Protection.

The Company and Pfleiderer Wieruszów Sp. z o.o., established provisions in order to secure funds for anticipated legal costs related to the appeal against the Decision and for the payment of possible fines if the Company and Pfleiderer Wieruszów Sp. z o.o. are obliged to pay the fines specified in the Decision. As of 31 December 2018 the provisions amount to PLN 36 964 thousand. Furthermore the Decision results in a risk of claims for damages against the companies Pfleiderer Group S.A. and Pfleiderer Wieruszów Sp. z o.o. This risk cannot be quantified based on the evidence and information available at this time.

Western Europe:

An earlier investigation by the German Federal Cartel Office in 2009 concluded in 2011 that PCF GmbH (then, Pfleiderer AG) and certain competitors had, for a period from at least 2004 through 2007, violated German competition law by coordinating price increases and minimum prices in the German market. As a result, the German Federal Cartel Office in September 2011 fined this group of market participants and certain individuals a total of EUR 42 million on the grounds of violating German and European competition laws by entering into anticompetitive agreements. PCF GmbH's share of the fine was settled in yearly instalments and fully repaid by the end of 2016.

As described below, two of the Pfleiderer Group's customers have sued the Pfleiderer Group for damages in connection with these antitrust violations. The companies are seeking compensation in connection with these antitrust violations. The

outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Based on its best knowledge the Management estimated as of 31 December 2018 provisions related to antitrust violations of EUR 4 150 thousand including costs related to legal proceedings with Classen as well as legal costs and amicable settlements of claims with Oeseder. Depending on the final outcome of the negotiations and/or the proceedings, the Group could be obligated to make further substantial payments.

There is a risk that additional follow-on claims for damages might be raised by third parties, including customers, against the Group in respect thereof. The amount of any such follow-on claims for damages cannot currently be determined with any certainty, but could be substantial. The realization of any of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.

In December 2012, Classen filed an action for damages with the regional court of Düsseldorf (Landgericht Düsseldorf) against Pfleiderer Baruth GmbH (then: Pfleiderer Faserplattenwerk Baruth GmbH) currently amounting to approximately EUR 55.4 million (plus interest). The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet. The court has released an indicative order dated 11 December 2018: According to the preliminary view of the court, the claim is justified on the merits but quantum still needs to be determined. Pfleiderer Baruth GmbH has argued against this indicative. On 14 February 2019 another oral hearing has taken place where a new German jurisdiction of the German Federal Court of 11 December 2018 has been discussed. The court now must come to a conclusion whether a judgment regarding the merits of the claim is possible without evaluating a possible damage. The next court decision is announced for April 18th 2019. As at 31 December 2018 the provision for accrued legal costs for Classen has been recognized by the Group in these consolidated financial statements and is comprised in the total amount of EUR 4 150 thousand.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfleiderer Group's customers, filed an action for damages with the regional court of Hannover (Landgericht Hannover) against Sonae Arauco Deutschland AG (then: Glunz AG) amounting to approximately EUR 26 million (plus interest). The plaintiff claimed to have suffered damages due to the Chipboard Cartel. Following a third party notice (Streitverkündung) by Sonae Arauco Deutschland AG, PCF GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court has passed a judgement on 31 May 2016 according to which the claim is justified on the merits but subject to further discussion regarding quantum. Sonae Arauco Deutschland AG has filed an appeal against this decision with the higher regional court in Celle. A court meeting was held in March 2019. The outcome is difficult to predict; a new oral hearing will take place in August 2019. As at 31 December 2018 the Management based on its best knowledge recognised a provision for the expected outcome, which is included in the total amount of EUR 4 150 thousand. PCF GmbH's obligation for substantial payments may result from a contribution claim (Gesamtschuldnerinnenausgleichsanspruch) based on PCF GmbH's joint and several liability (Gesamtschuld), if Sonae Arauco Deutschland AG or any other third party is obligated to pay compensation to Oeseder. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

Pfleiderer Deutschland GmbH (Pfleiderer) received the letter dated 24 July 2018 from the insolvency administrator of Alno Aktiengesellschaft (Alno) in which he challenges all payments made by Alno for delivery of Pfleiderer's products from 30 June 2014 to 6 July 2017 in a total amount of EUR 19 346 thousand. With respect to all payments made within three months prior to the filing for opening of insolvency proceedings the insolvency administrator argues that they are subject to the three months claw-back right (sec. 130 German Insolvency Code). With respect to the remaining payments made within four years prior to the filing for opening of insolvency proceedings the insolvency administrator argues that they are subject to the claw-back right for intended damage (sec. 133 German Insolvency Code). The insolvency administrator who is in the burden of proof bases both claw-back claims on the assumption that Alno was illiquid during the whole claw-back period and Pfleiderer was aware of it. The insolvency administrator relies on a – to Pfleiderer unknown - expert's opinion regarding Alno being illiquid during the claw-back period. Based on the facts known so far it is not possible to estimate in a reliable way if the claim is legitimated and to estimate an amount of the alleged claw-back claim for which it is more likely than not that Pfleiderer has to pay it. Company and its legal advisors will further verify the claim but at this stage the alleged claw-back claim is an uncertain liability; on November 30th 2018 the Company has sent a letter to the insolvency administrator rejecting the claims. In case of a litigation Pfleiderer and its legal advisors estimated the cost for lawyers and the court and created the provision in the amount of EUR 550 thousand.

Moreover the Group has tax liabilities resulting from tax audit for years 2010-2015 in Germany amounting to EUR 1.6 million as at 31 December 2018.

1.8. WORKFORCE IN THE PFLEIDERER GROUP

Human Resources Management

3 735 Annual employment in **Pfleiderer Group** in 2018

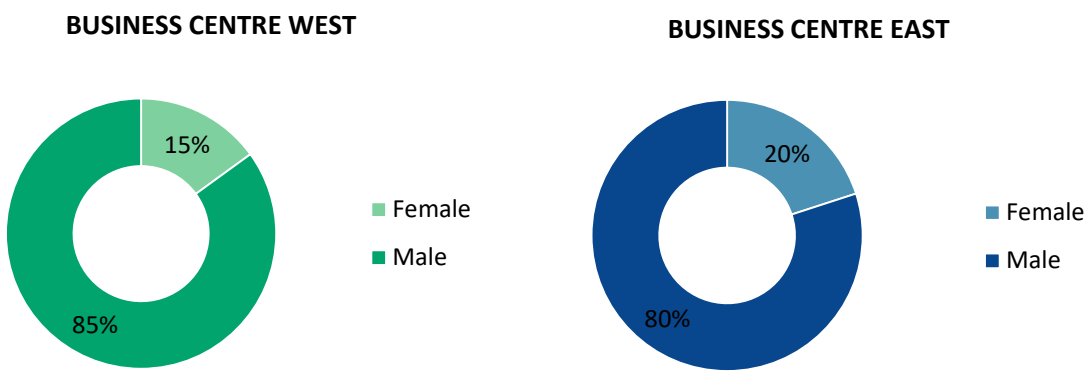
1 404 Annual employment in **Business Centre East** in 2018

2 331 Annual employment in **Business Centre West** in 2018

TABLE 5: WORKFORCE IN THE PFLEIDERER GROUP (AVERAGE HEADCOUNT)

'000 EUR	2018	2017
Management	7	10
Direct production employees	1 714	1 699
Indirect production employees	788	749
Administration, office and other employees	1 226	1 063
Total	3 735	3 521

FIGURE 14: GENDER STRUCTURE



In 2018 Pfleiderer launched a series of trainings for the entire Pfleiderer Sales Force ("Pfleiderer Sales Excellence Academy") which will be continued in 2019. Trainings are conducted in 10 groups covering 4 different languages.

Pfleiderer Group focuses on employee development from their first day on the job. Every new employee follows the onboarding plan adjusted to his/her role and individual needs. We provide many development programmes to help our associates and managers upgrade their competences and become ready to follow their own carrier paths.

New managers take part in the **FIRST TIME MANAGER** programme - training to help them become team leaders. As the first step, assessment centre sessions are provided. Then delegates work on their development focusing on managerial situational management and motivation styles.

The Group applies a **diversity policy** to the members of the governing bodies and key managers regarding in particular education profile, age and professional experience. The key managerial positions in the group are held by men and women. The purpose of the Company's diversity policy is to ensure that the Company is run by highly-qualified managers with experience as diverse as possible. The diversity policy also aims to counteract any discrimination, whether based on origin, gender, sexual orientation, religion, world outlook, handicap or age.

Workforce at Pfleiderer Group S.A.

As at 31 December 2018, the Company employed managers and experts dedicated to activities at the Group level:

- Management board (CSO)
- Group accounting and reporting
- Legal support
- Internal audit

TABLE 6: WORKFORCE IN PFLEIDERER GROUP S.A. (AVERAGE HEADCOUNT)

'000 EUR	2018	2017
Direct production employees	0	0
Indirect production employees	0	0
Administration, office and other employees	13	15
Management staff	1	3
Total	14	18

1.9. RESPONSIBILITY IN THE VALUE CHAIN

We can only build a future worth living by thinking and acting sustainably. At Pfleiderer, we do everything in our power to achieve this goal. That is why sustainability is an essential condition in all our corporate activities. At economic, environmental and social levels.

Our products are manufactured not only with the utmost care, our processes are also controlled by a certified environmental management system. We have a special responsibility, not only as a manufacturer, but as an employer as well: For this reason, our company cultivates a culture of mutual trust geared towards responsible, self-reliant action. This means sustainability for your benefit – environmentally-sound products, committed employees and maximum satisfaction.

Health and Safety

In 2018 our ONE SAFETY program to improve the overall safety culture in the company with a common approach in Poland and Germany was continued. The main activities have been maintained and even intensified:

- Leadership and communication workshops on shift supervisor and employee level,
- Strengthen the focus inside our Near-Miss system to behavioural safety,
- Ongoing improvement of “5 minutes for safety” communication on plant and shop floor level,
- Starting our new training method to improve the risk awareness of employees.

As a result of these activities, we successfully reduced our accidents again in 2018:

- 35 % reduction of accidents against 2017 numbers,
- 63 % reduction of accidents against 2016 number.

In 2018 on Group level we had 45 631 near-miss reports. The reports pertained to unsafe conditions and unsafe behaviour.

In 2018 we did the next successful steps to break down our ZERO ACCIDENT vision to target level.

Environment

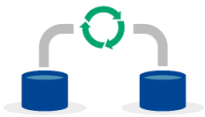
In 2018 the most important environmental activities were related to two new environmental legislation processes:

REACH

REACH is the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals. It took force in 2007, replacing the former legislative framework for chemicals in the EU. During the European REACH Process all chemicals produced in or imported to Europe have

to be evaluated by ECHA (European Chemical Agency) regarding the environmental impact in the whole value chain. The aim is to restrict or authorise usage. This process also considers all glues and resins used in the Pfleiderer Group's production process.

ECHA had to take into account the reclassification of formaldehyde which had and will have an impact on the emission of products and OEL (Occupation Exposure Limit) for formaldehyde on workplaces in production. The OEL for formaldehyde in workplaces was lowered in Germany and the same happen in Poland in 2018. In 2018, the Pfleiderer Group implemented a new Guidance document regarding formaldehyde in workplaces in the German plants. This Guidance document was developed by the German authorities with experts in the Pfleiderer Group including the German VHI Federation to give clear advice regarding the consequences of the reclassification of formaldehyde. Because of this reclassification different things have to be considered (measurement of formaldehyde in workplaces, transparency regarding the measured concentration, employee information of the employees, medicinal aspects, behaviour of visitors etc.) and the developed system should be simple and effective to guarantee the health of an employee.



In 2018 this guidance document has been transferred to European level and in the meantime all European producers of wood based panels have confirmed that they will accept this guidance document and a new lower OEL value for formaldehyde on workplaces. End of 2018 an official self-commitment was signed between EPF (European Panel Federation) and the European Trade Unions.

BREF

In the European BREF Process a harmonised environmental law was developed by the European Commission for the Wood-Based Panel Industry (WBP industry). New limits for the air emissions of the plants have been set and will take force at the end of 2019. The authorities invited the Pfleiderer Group to take part in the discussions at the national level in Germany and Poland in relation to implementing European law into national law. The discussion covered the national level such as measurement methods, frequency and also the concrete selection of the new limits.

In 2017 Pfleiderer Group was able to show that the new limits, which will come into force at the end of 2019 are already met in most plants. Additionally, in 2017/2018 the necessary investments were made in the other plants to enable them to fulfil the new legal requirements by end of 2019. In only a few cases it became clear that even if Best Available Technology is used, certain limits cannot be fulfilled. In these cases, the Pfleiderer Group has asked the authorities for a derogation and the decision is still pending. These few cases are related not only to Pfleiderer, but the whole German Wood-Based Panel Industry. In 2018 the discussions with the authorities have been ongoing and a final decision regarding necessary derogations is expected in the course of 2019.

Suppliers & raw materials

Procurement calls for buying the required product or service with a defined quality or specification at the right time and in a quantity needed at the lowest possible cost from a reliable source. It includes the process of identification, acquisition, access, positioning, management of resources and related capabilities.

Currently, approximately 70% of the Group's turnover is driven by procurement. This means that procurement bears great responsibility for the cost structure and buyers make a major contribution to the Pfleiderer Group's competitiveness.

We expect active support from our suppliers in developing and testing new products, flexibility and absolute delivery reliability. All supplies and services have to meet Group quality requirements and make a continuous contribution to cost savings.

Procurement in the Pfleiderer Group is managed by spend in three areas:

- Direct (Chemicals, Paper, Energy)
- Wood (Fresh wood, Recycling wood, Agricultural products)
- Indirect (Production & Maintenance, SCM, Corporate)

Using the overall Group's size and bargaining power, each area negotiates terms and conditions with suppliers based on the strategy prepared and realized in each pertinent group.

In 2018 the Procurement Department was responsible for co-operation with suppliers in many projects and developed the successful internal cooperation with FAFIO (Focus Areas For Improvement in Operations), the most important project to realize savings. It has continued in 2018. It achieved sustainable savings over the last three years and calls for achieving savings also in the following years.

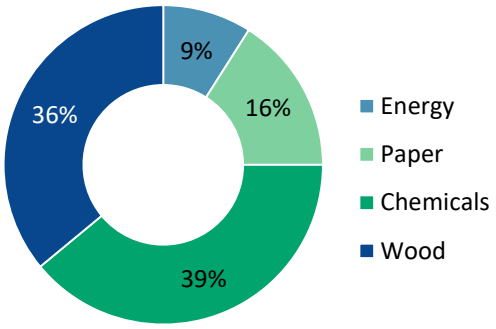
Further on-going targets are to enlarge the advantages of Global Sourcing markets, optimize working capital and optimize payment terms.

In 2018 the Procurement department finalized the "Procurement Excellence" modules, which we started in 2016/2017. In 2018 we focussed now on the module SRM (Supplier relationship management) and its implementation in "Direct Spend" as a pilot.

Another relevant activity is our enhancements of digitalization of processes in all spend areas.

None of the Group's suppliers accounts for more than 10% of the total value of supplies or 10% of total sales.

FIGURE 15: BASKET OF MATERIAL GROUPS IN THE PRODUCTION OF CHIPBOARDS - PARTLY BY PURCHASING VOLUME



Wood

For wood materials, all production plants apply a "multiple sourcing" strategy, to control the supply chain and reduce the risk of disruptions to supply. Sources are limited to verified controlled wood origins. The Group enters into agreements with local wood suppliers to be able to buy sawmill waste and wood for recycling. These materials are used in the raw chipboard and fibreboard production process. Due to the relatively low value of wood materials in relation to transport costs, the most economical way is to execute agreements with wood suppliers operating within a range of 150-200 km from a given production plant.

The usage of wood for energy production is rising. Therefore competition between energy generation and the manufacture of wood products remains strong. Together with new capacity installed in Northern Poland into panel industry it brought wood price increase on Polish market already in 2018. As a result of its wood market analysis for Germany and Poland Pfleiderer expects a comfortable availability of sawmill residues, roundwood and recycled wood in 2019. However, Pfleiderer sees some risk in the competition for sawdust and chips in Poland and Germany with the pulp and pellet industry.

The Group is also increasing its use of recycled wood and chips in the production mix to reduce production costs. Wood prices in Poland will be under pressure due to new panel plants activity.

Chemicals

The Group uses resin for its own production in the Silekol plant, but it also diversifies its risk by making partial external purchases. In the production of glues and resins, the key ingredients are urea, methanol and melamine. In 2018, commodity prices increased steadily, in particular methanol and urea reached a very high price in the last quarter, which combined with the logistical problems caused by the lack of water in the Rhine river affected the higher prices of glues and chemical industries in the entire central Europe market.

Paper

The Pfleiderer Group centrally orders and negotiates contracts for the purchase of décor and technical paper from global suppliers.

The price of paper consists of two main components: pulp and titanium dioxide. In 2018, the prices of eucalyptus pulp were in the growth rate, while titanium recorded the first small cuts in the fourth quarter after multi-annual increases.

Energy

The purchase of gas and power is performed centrally in the Pfleiderer Group. The Group's energy strategy is based on a rolling risk-managed procurement process where long-, middle- and short-term expectations for prices from the wholesale commodity markets are continuously evaluated.

Since 2017 we changed our purchasing strategy from short-term products to middle- and long-term products. Therefore our energy purchasing result in 2018 was not highly affected by the massive increase of global wholesale energy markets (oil, gas, coal, certificates) which rose in the meantime.

Indirect

Indirect procurement includes services and materials that are needed across the entire enterprise but are not processed in the products. Indirect spend is organized in an central and local structure to provide in the most expedient solutions for major targets such as cost and process optimized purchasing, security of supply and close cooperation with main interfaces.

Sustainability

The Pfleiderer Group supports the principle of sustainable forestry, which is why we only use wood from sustainably managed or certified forests or recycled wood in our products. Standards such as the PEFC™ (Programme for the Endorsement of Forest Certification) and FSC® - FSC® license code: FSC-CO011773 (Forest Stewardship Council) ensure sustainable management and are therefore followed in the purchasing department. These programmes ensure that companies act and trade according to defined ecological, social and economic standards. The Pfleiderer Group never uses wood from exhaustive cultivation or forest destruction.

Each year Pfleiderer processes around five million cubic meters of wood – that is roughly the equivalent of 800 truckloads per working day. We chiefly consider suppliers who are within a radius of around 200 kilometres – for economic reasons, too. Because we avoid unnecessarily long routes, the environmental impact is reduced.

Some timber that has already passed through our factory gates is discarded for quality reasons. We nonetheless find a use for it: In most of our locations we run biomass CHPs (combined heat and power stations) or other biomass incineration plants and in this way use the waste timber and other fuels. The energy produced this way flows into our production processes. In this way we contribute to reducing the share of fossil energy sources to a minimum. Our efficient energy management system has received certification in all our German factories to EN ISO 50001. EN ISO 50001 is the current global standard for energy management systems and has been in force since 2011. Systematic recording and assessment of the type of energy used, the energy quantities and energy efficiency ensure that emissions can be reduced, resources spared and costs lowered.

We check our emissions continuously to continue reducing them wherever possible. One example: For years the German locations of Gütersloh and Neumarkt have voluntarily achieved values up to 80% below the legally specified limits for heavy metal and dioxin emissions. We report the actual daily values on our website.

Water is a valuable resource. In the interests of integrated factory planning, we handle this resource carefully. Some of the wastewater from the production process, for example, that remains after cleaning plant parts or washing and shredding chippings, is used directly elsewhere in the production process – for example, as mixing water for glue. The quantity of wastewater that then remains is then treated and flows back into the production processes. After the wastewater is

vaporised, the distillate is fed back into the production process. The factory is therefore completely free of process wastewater.

Wood products are carbon sinks: The CO_2 trees have extracted from the atmosphere before processing is stored in the product. Through this effect, wood products help reduce greenhouse gases. Wood products also promote forest growth. Sustainable forestry means that the amount of wood harvested is equal to the amount that regrows. Sustainable forestry therefore contributes to the conservation and expansion of forests. Managed forests consistently maintain, harvest and afforest and thereby cut the carbon content in the atmosphere because growing trees absorb CO_2 and produce oxygen.

The Pfleiderer brands have a long history and are recognised as the potential of our sustainable products. One example: Raw particleboards for building, such as the LivingBoard, have a corresponding environmental product declaration (EPD) issued by the German Institute of Building and the Environment (Institut Bauen und Umwelt). In this way, designers, specifiers and installers find neutral, comprehensive and comparable information about the respective building product and its sustainability.

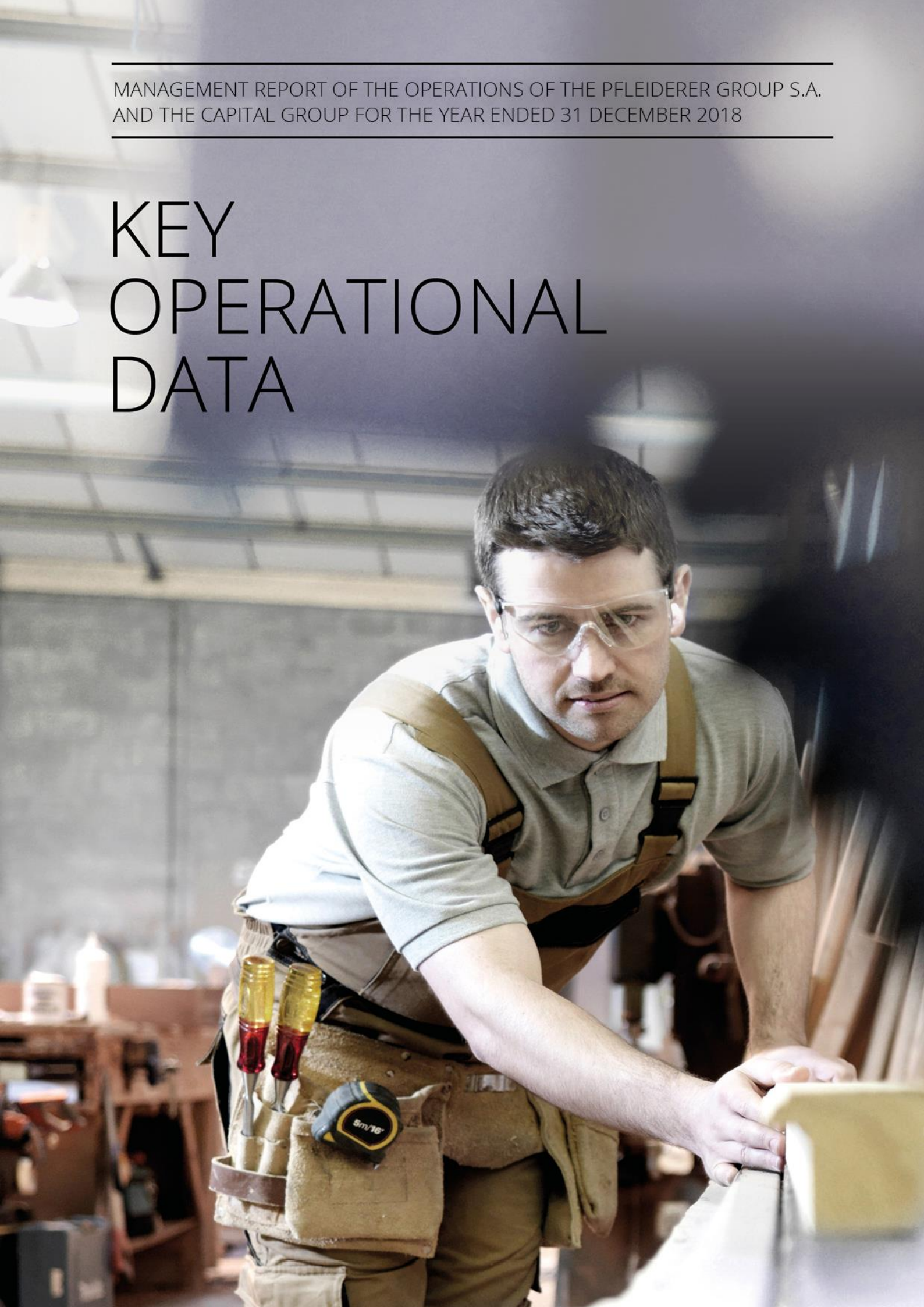
Our objective: use methods and processes to consume fewer raw materials – and maintain the same quality defined in specifications at the same time. Such products are also easier to transport and for customers to handle.

We derive our environmental objectives and the specific programmes from the international environmental management standard ISO 14001, that defines worldwide recognised requirements for environmental management systems. The standard therefore promotes a continuous improvement process for an organisation's environmental performance. In the meantime the entire Pfleiderer Group is certified according to ISO 14001.

An overview of our certificates is provided under the corresponding heading in the service area on our website.

Our products store CO_2 throughout their life cycle. The longer a wood product is used, the greater the storage effect. After use, our products can be used again as recycled wood material or as energy and help replace fossil fuels. During combustion, the quantity of CO_2 released is no more than was stored in the wood during its life. Due to thermal recovery, very little waste is produced in the manufacture of our wood products. However, we think it is a shame to burn wood. We are therefore in favour of cascaded use, first as a material and then as energy.

KEY OPERATIONAL DATA



2. KEY OPERATIONAL DATA

2.1. PRODUCTION VOLUME AND STRUCTURE

In 2018 and 2017 the production volumes of the main product groups at the group level were as follows:

TABLE 7: PRODUCTION VOLUMES OF MAIN PRODUCT GROUPS AT THE GROUP LEVEL

'000		2018	2017	Change (%)
Gross production of raw chipboards (finished goods; semi- product for the of laminated chipboards)	cbm	3 278	3 292	0%
Laminated boards	sqm	106 972	108 053	-1%
Raw MDF/HDF boards (finished goods, semi-product to lacquered MDF boards)	cbm	595	573	4%

TABLE 8: PRODUCTION VOLUMES OF MAIN PRODUCT GROUPS IN BUSINESS SEGMENTS

'000		2018 Core West	2018 Core East
Gross production of raw chipboards (finished goods; semi- product for the of laminated chipboards)	cbm	1 939	1 339
Laminated boards	sqm	66 378	40 594
Raw MDF/HDF boards (finished goods, semi-product to lacquered MDF boards)	cbm	365	230

2.2. SALES STRUCTURE

Revenue reported by the Group in 2018 was EUR 1 062 471 thousand and increased 5.6% compared to 2017.

The sales volumes by product groups were as follows:

TABLE 9: REVENUE BY PRODUCT GROUP

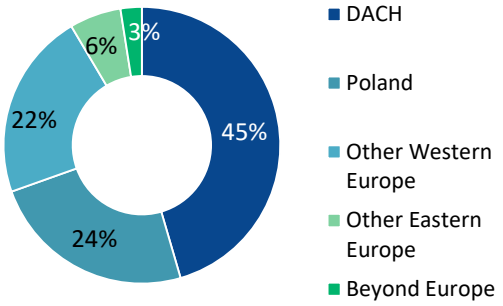
'000	2018	2017
Raw particleboard	194 972	183 503
Raw MDF/HDF	114 661	101 374
Lacquered board	34 486	30 173
Melamine faced board	463 026	459 679
HPL	78 320	74 956
HPL elements	86 358	79 654
Others	73 166	60 642
Sale of products	**1 044 989**	**989 981**
Electricity	35 802	33 909
Scrap	6 364	5 964
Freight outs	8 065	7 044
Other	2 200	1 783
Sales reductions (1)	-34 949	-32 286
Others incl. sales deductions	**17 482**	**16 414**
TOTAL	1 062 471	1 006 395

(1) Sales reductions include bonuses for customers, cash discounts and refunds.

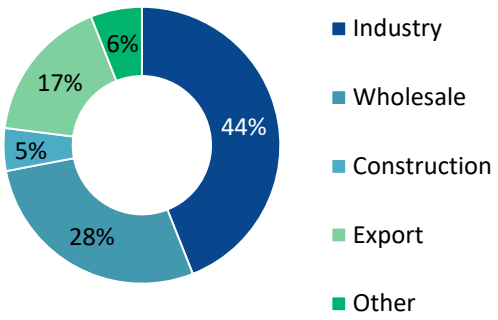
TABLE 10: SALES VOLUMES BY PRODUCT GROUP AT THE GROUP LEVEL

		2018	2017
Laminated particleboard	spm	99 496 755	101 473 261
HPL	spm	11 918 025	11 662 240
Raw particleboard	cbm	1 089 002	1 125 416
Laminated MDF/HDF board	spm	2 750 760	3 228 900
Raw MDF/HDF board	cbm	411 218	387 694

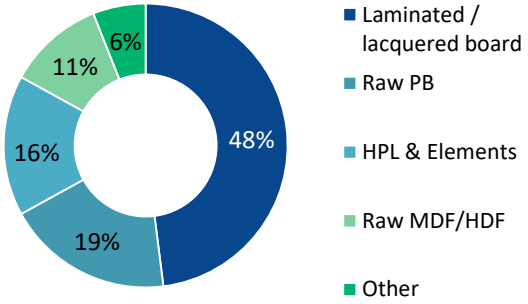
SALES BY REGION



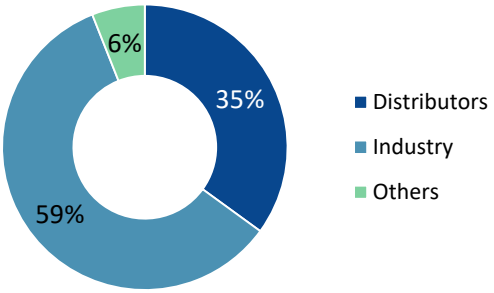
SALES BY CHANNEL



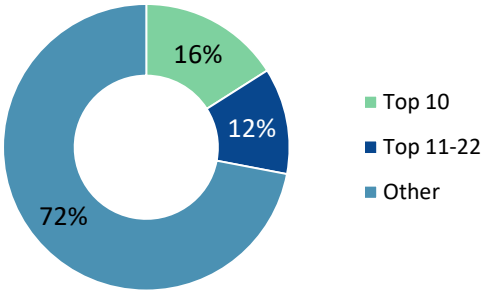
REVENUE SPLIT



CUSTOMER SPLIT



CUSTOMER SPLIT



MANAGEMENT REPORT OF THE OPERATIONS OF THE PFLEIDERER GROUP S.A. AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL PERFORMANCE

3. FINANCIAL PERFORMANCE

3.1. RULES FOR PREPARING THE CONSOLIDATED AND STANDALONE ANNUAL FINANCIAL STATEMENTS

The consolidated and standalone financial statements have been prepared in accordance with the accounting principles contained in the International Financial Reporting Standards as adopted for use in the European Union ("IFRS EU").

They were authorised for issue by the Group's Management Board on 24 April 2019.

Details of the Group's accounting policies, are included in Note 4 of the Consolidated Financial Statements and in Note 6 of the Standalone Financial Statements.

3.2. EXPLANATION OF THE ECONOMIC AND FINANCIAL DATA IN THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

3.2.1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

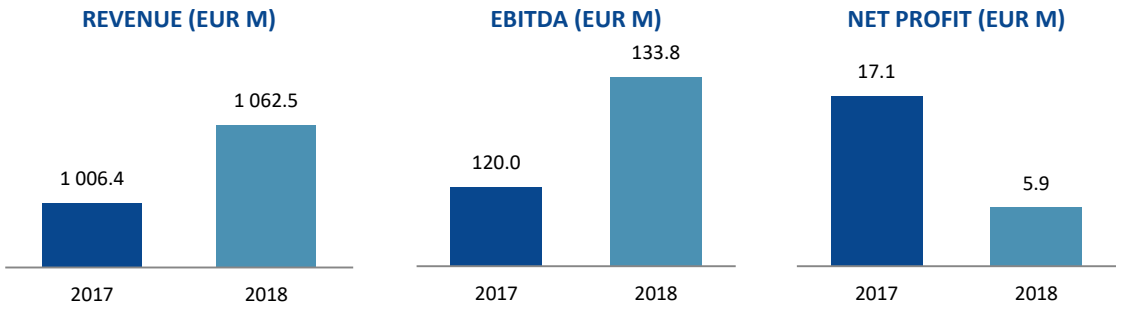


TABLE 11: CONSOLIDATED STATEMENT OF PROFIT OR LOSS

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Revenue	1 062 471	1 006 395
Cost of sales	-823 579	-775 457
Profit on sales	**238 892**	**230 938**
Other income	5 905	16 032
Distribution expenses	-131 695	-131 787
General and administrative expenses	-49 627	-51 969
Other expenses	-8 713	-17 133
Result from operating activities	**54 762**	**46 081**
Financial income	288	8 127
Financial expenses	-26 139	-34 701
Exchange differences	-4 699	10 859
Net financing cost	**-30 550**	**-15 715**
Profit before tax	**24 212**	**30 366**
Income tax expense	-18 307	-13 227
Net profit for the reporting period	5 905	17 139

Revenues came in at EUR 1 062 471 thousand in 2018, growing 5.6 YoY, mostly due to positive price performance. Sales volume increase was recorded within HPL (2% growth) and raw MDF/HDF board (6% growth). The Core West segment revenues hit EUR 736 308 thousand, augmenting by 4.5% YoY, while the Core East segment added EUR 326 163 thousand, up 8.1% YoY.

The Group's profit on sales was EUR 238 892 thousand in 2018, growing as much as 3.4% YoY. The gross profit margin remained on a comparable level YoY in 2018, coming in at 22.5% versus 22.9% in 2017. The Group managed to almost fully cover raw material prices growth. Moderate growth in costs of sales was implicated by material prices growth resulted mainly from wood, paper and chemicals.. The general and administrative expenses remained on a similar level YoY. Distribution expenses noted 4.5% decrease as a result of packaging materials costs decline and lower marketing costs.
Other operating income and expenses are not comparable YoY due to one off items. In 2017 other operating income was positively influenced by release of obligation for repayment of government grant supporting electricity sales (EUR 4.4 m), sale of unused CO2 emission rights (EUR 1.4m) and received insurance refunds due to insolvency of customers (EUR 3.3m). Other operating expenses for year 2017 included provision for OCCP penalty and related costs (EUR 9.1m) as well as increase of allowance for receivables and bed debt loss (EUR 5.3m). On the other hand in 2018 other operating expenses were influenced by consulting costs for improvement projects (EUR 4.5m) and advisory costs regarding litigation matters (EUR 0.8m) as well as increase of provision for legal costs (EUR 1.5m). Overall, the Group's result from operating activities came in at a strong EUR 54 762 thousand in 2018, growing by c. 18.8% YoY. The operating result of the Core West reached EUR 41 108 thousand in 2018 versus EUR 40 291 thousand in 2017 while operating result of the Core East reached 13 483 thousand in 2018 versus EUR 5 894 thousand in 2017.

The net financing cost for 2018 was negatively impacted by non-cash effect of negative exchange differences. The Group has lowered the borrowing costs as a result of incurring lower interest costs in 2018 by ca. 10.3% (cash effect). The above mentioned negative exchange differences (non-cash) result from revaluation of intercompany loan originally in EUR revaluated to PLN in Pfleiderer Group S.A. (as a result, on the level of consolidated financial statements the forex difference from Pfleiderer Group S.A. books are not excluded. The amount for 2018 was EUR 4 699 thousand cost and EUR 10 859 thousand income for 2017).
Income tax expense is higher than estimated via effective tax rate, mainly due to effect of German tax rate 28.85% as well as additional tax paid for the years 2016-2017 in Germany and costs for the outcome of the tax audit for years 2010-2015 conducted in Germany – overall impact on 2018 result was EUR 2 852 thousand. Additionally the Group has written off deferred tax asset in one of its subsidiaries in Poland for EUR 5 237 thousand. Overall, the Group's net profit came in at EUR 5 905 thousand in 2018.

TABLE 12: CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR Q4

'000 EUR	1 Oct. - 31 Dec. 2018	1 Oct. - 31 Dec. 2017
Revenue	262 781	255 485
Cost of sales	-207 129	-199 110
Profit on sales	**55 652**	**56 375**
Other income	509	4 178
Distribution expenses	-33 492	-28 278
General and administrative expenses	-12 497	-13 359
Other expenses	-2 534	-13 893
Result from operating activities	**7 638**	**5 023**
Financial income	7	-18
Financial expenses	-8 303	-5 415
Exchange differences	-1 407	4 822
Net financing cost	**-9 703**	**-611**
Profit before tax	**-2 065**	**4 412**
Income tax expense	-7 626	-6 340
Net profit for the reporting period	-9 691	-1 928

3.2.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 13: CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

ASSETS '000 EUR	31 Dec. 2018	31 Dec. 2017 restated	1 Jan. 2017 restated
Property, plant and equipment	558 587	554 279	548 863
Intangible assets	79 179	82 907	83 091
Goodwill	66 792	67 541	66 171
Long term investments	490	511	515
Investment property	843	850	875
Deferred tax assets	475	6 471	5 948
Advances paid on fixed assets	8 052	9 877	3 016
Government grants receivables	3 251	5 275	12 921
Other non current assets	1	3	2
Non-current assets	**717 670**	**727 714**	**721 402**
Inventories	116 292	96 301	91 903
Trade and other receivables	33 829	35 673	32 878
Income tax receivable	511	244	376
Government grant receivables	0	0	642
Cash and cash equivalents	33 495	83 845	97 726
Fair value of hedging instruments	81	380	0
Other short term financial assets	289	326	0
Current assets	**184 497**	**216 769**	**223 525**
Total assets	902 167	944 483	944 927

LIABILITIES AND EQUITY '000 EUR	31 Dec. 2018	31 Dec. 2017 restated	1 Jan. 2017 restated
Share capital	6 692	6 692	6 692
Share premium	146 375	146 375	146 375
Statutory reserve funds	79 391	87 281	91 801
Reserves	-11 921	-10 330	-13 937
Retained earnings	-87 267	4 456	34 896
Total equity attributable to owners of the Company	133 270	234 474	265 827
Total equity	133 270	234 474	265 827
Liabilities			
Loans and borrowings	425 875	336 155	329 762
Provisions for employee benefits	52 072	53 389	56 893
Provisions	1 886	1 453	3 694
Deferred tax liabilities	59 721	65 625	64 176
Deferred income from government grants	6 252	8 807	17 439
Other non-current liabilities	21	18	239
Non-current liabilities	**545 827**	**465 447**	**472 203**
Loans and borrowings	6 211	2 529	10 898
Income tax payable	6 912	15 734	10 559
Trade and other payables	170 594	188 396	149 539
Employee related payables	24 478	21 794	22 118
Provisions	14 432	15 555	12 782
Fair value of hedging instruments	16	0	0
Deferred income from government grant	427	554	1 001
Current liabilities	**223 070**	**244 562**	**206 897**
Total liabilities	**768 897**	**710 009**	**679 100**
Total equity and liabilities	902 167	944 483	944 927

The assets in the statement of financial position decreased by ca. 4% in 2018 versus FY 2017 numbers. Non-current assets in 2018 constituted 79% of total group assets versus 77% in FY 2017. Within the twelve month period a slight decline in non-current assets was noticeable mainly due to write down of deferred tax asset in one of Polish subsidiaries as well as reassessment of government grants receivables in the same subsidiary. There were also changes in the current asset composition. Inventories grew c.a. 20.8% in the twelve month period due to growth in stocks of raw materials and finished goods. Receivables decreased 5.2%. Cash and cash equivalents level in 2018 was lower by 60.1% compared to the end of 2017 mainly due to significant CAPEX expenditures and additional taxes paid.

The balance of non-current liabilities increased in the 2018 mainly due to additional external financing. It was partially declined by the downwards revaluation of deferred income from government grants and decrease in deferred tax liabilities. Current liabilities decreased by ca. 9% YoY. It resulted mainly from the decline of trade payables and income tax payable partially netted with higher amount of current part of loans and borrowings.

The drop in the Group's total equity from EUR 234 474 thousand at YE 2017 to EUR 133 270 thousand at YE 2018 was a net effect of positive net income, dividend payment and share buy-back. In 2018 the Company repurchased shares for the amount of EUR 88 798 thousand including costs and paid dividend of EUR 16 719 thousand.

Total equity represented 14.8% of total equity and liabilities at the end of 2018 in comparison to 24.8% at YE 2017.

3.2.3. CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 14: CONSOLIDATED STATEMENT OF CASH FLOWS IN 2018

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Net profit for the reporting period	**5 905**	**17 139**
Depreciation and amortisation	79 002	73 832
Foreign exchange gains	4 699	-10 859
Interest for the period	26 049	27 358
Profit on investing activities	202	132
Income tax disclosed in profit or loss of the period	18 307	13 227
Amortisation of government grants	-351	-844
Result on forward contracts	-198	-784
Increase in exchange differences on translating foreign operations	-1 323	1 684
Changes in		
trade and other receivables	1 455	-7 588
inventories	-21 319	-2 000
trade and other payables	-10 495	28 632
employee benefit obligations	-2 658	477
provisions	-682	517
Cash generated from operating activities	**98 593**	**140 923**
Interest received	0	0
Income tax (paid)/received	-27 014	-7 594
Net cash provided by operating activities	71 579	133 329
Net cash used in investing activities		
Disposal of property, plant and equipment	72	29
Interest received	288	100
Acquisition of intangible assets and property, plant and equipment	-85 456	-66 887
Net cash used in investing activities	-85 096	-66 758
Net cash used in financing activities		
Repayment of borrowings and other debt instruments	0	-321 684
Increase of borrowings and other debt instruments	99 212	350 000
Redemption fee and refinancing costs	-8 042	-21 200
Share buy-back	-88 798	-35 643
Dividend payments	-16 933	-16 456
Interest paid	-18 130	-28 327
Other financing activities	-4 142	-7 142
Net cash used in financing activities	-36 833	-80 452
Total cash flows	-50 350	-13 881
Decrease/Increase in cash	-50 350	-13 881
Cash at beginning of the period	83 845	97 726
Cash at the end of the period	33 495	83 845

Cash earned on operating activities in 2018 was consumed by significant investment programme (EUR 85 456 thousand) and financing activities, predominantly shares buy back of EUR 88 798 thousand, dividend payments of EUR 16 933 thousand and interest paid of EUR 18 130 thousand. The net cash from operating activities was negatively affected by working capital as well as payments of extra taxes for years 2016 and 2017 (EUR 11 200 thousand) and tax resulting from the tax audit in Germany for years 2010-2015 (EUR 6 414 thousand).

The investing cash flow was EUR 85 096 thousand cash out in 2018 due to conducted significant investments. The total amount of investing cash flows in 2018 includes repayment of investment liabilities in the amount of EUR 5 731 thousand.

The net financing cash flow in 2018 was strongly influenced by dividend payments, interest paid and partially by shares buy back. Shares buy back in the amount of EUR 88 798 thousand was partially financed from additional external financing of EUR 95 000 thousand, of which EUR 70 980 thousand was used on shares buy back and EUR 8 042 thousand was consumed by refinancing costs. Due to performed refinancing of debt the significant YoY decrease of interest paid can be observed.

3.2.4. KEY FINANCIAL RATIOS – GROUP

Below we present the key financial ratios describing the Group's performance:

TABLE 15: KEY FINANCIAL RATIOS DESCRIBING THE GROUP'S PERFORMANCE

	Definition		2018	2018 (*)	2017 restated
Liquid funds	Cash and cash equivalents	mEUR	33.5	157.9	83.8
Net debt	Financial debt - liquid funds	mEUR	398.6	274.2	254.8
Net leverage	Net debt / EBITDA (LTM)	factor	3.0	2.1	2.1
Equity ratio	Equity / balance sheet totals	%	14.8%	25.1%	24.8%
Gearing	Net debt / equity	factor	3.0	1.1	1.1
EBITDA (LTM)	Result from operating activities + depreciation + amortization for last 12 months	mEUR	133.8	133.8	120.0
Interest cover	EBITDA (LTM) / net financing costs (LTM)	factor	4.4	4.4	7.6
ROCE	Result from operating activities (LTM) / Capital employed	%	8.5%	8.5%	7.5%
ROA	Net profit (LTM) / total assets at the end of the period	%	0.7%	0.6%	1.8%
ROE	Net profit (LTM) / equity at the end of the period	%	4.4%	2.3%	7.3%

(*) Ratios excluding cash effect of shares buyback in the total amount of EUR 124 436 thousand.

Looking at the financing position in YoY comparison shows a higher level of the net debt resulting mainly from lower level of liquid funds as well as amendment of long term bank loan agreement.

Starting from 1 January 2019, due to implementation of new IFRS 16, the amount of net debt and tangible assets will visibly increase. For details of the impact of new IFRS 16 on the Group's financial statements please refer to Note 3 in the Notes to the Annual Consolidated Financial Statements.

TABLE 16: MARGINS

	Definition	2018	2017
Gross profit margin	(Profit on sales / Revenue)	22.5%	22.9%
EBIT margin	(Result from operating activities / Revenue)	5.2%	4.6%
Pre-tax margin	(Profit before tax / Revenue)	2.3%	3.0%
Net income margin	(Net profit / Revenue)	0.6%	1.7%

3.2.5. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ITEMS - GROUP

On 13 April 2017 the Group has finalized and signed refinancing agreements of EUR 450.0 million senior secured credit facilities comprising:

- a EUR 350.0 million 7-year covenant-lite term loan B facility and
- a EUR 100.0 million 5-year revolving credit facility, comprising of a EUR 50.0 million and PLN 211.48 million facility.

The proceeds from the Facilities have been used to redeem the EUR 321 684 000 senior secured notes issued by PCF GmbH (formerly Pfleiderer GmbH) ("Notes") in full, to refinance the existing senior secured revolving credit facility and to fund related transaction fees, redemption premium and expenses as well as for general corporate purposes and working capital requirements.

On 31 July 2018, the Senior Facilities Agreement originally dated 13 April 2017 was amended and restated. The total amount of senior secured term loan B increased by EUR 95 million from EUR 350 million to EUR 445 million, the volume of the Revolving Credit Facilities remains unchanged.

Security interests under the Senior Facilities Agreement originally dated 13 April 2017 (and having been amended and restated on 31 July 2018) (Polish entities)

In order to secure the new obligations under the senior facilities agreement originally dated 13 April 2017, and having been amended and restated on 31 July 2018, Pfleiderer Group S.A. on 1 August 2017 established the financial pledge and, subject to registration, the registered pledge over the shares in Pfleiderer Polska Sp. z o.o. and granted the power of attorney to exercise corporate right from the pledged shares in favour of Trigon Dom Maklerski S.A. (the "Polish Security Agent").

Following the initial utilization of the facilities under the senior facilities agreement originally dated 13 April 2017, and having been amended and restated on 31 July 2018, the existing security interests granted by the Polish Pfleiderer entities to secure the repayment of claims of Commerzbank Aktiengesellschaft, Filiale Luxemburg acting as security agent (the "Security Agent") arising from the parallel debt in accordance with the intercreditor agreement dated 4 July 2014 (as amended and restated) entered into in connection with the EUR 60 million and PLN 200 million RCF Agreement dated 4 July 2014 (as amended and restated) between, inter alios, Pfleiderer Group S.A. and certain of its subsidiaries as borrowers, the Security Agent and certain financial institutions as original lenders and the EUR 321 684 thousand Senior Secured Notes due 1 August 2017 issued by PCF GmbH were released.

In order to secure the new obligations under the senior facilities agreement originally dated 13 April 2017, and having been amended and restated on 31 July 2018, the following security interests have been granted for the benefit of the lenders:

(i) Pfleiderer Group S.A. entered into the agreements for financial and registered pledges over shares in Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. and granted powers of attorney to exercise corporate rights from the pledged shares in these companies in favour of Polish Security Agent.

(ii) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. entered into the agreements for financial and registered pledges over major bank accounts and granted the powers of attorney to dispose funds from their bank accounts in favour of the Polish Security Agent.

(iii) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. entered into the agreements for security assignments of rights under commercial contracts, intercompany loan agreements and insurance agreements.

(iv) The following mortgages have been established in favour of the Polish Security Agent:

a) Mortgage over properties and perpetual usufructs of Pfleiderer Wieruszów Sp. z o.o. in Wieruszów, Wieruszów/Klatka i Wieruszów/Pieczyska;

b) Mortgage over perpetual usufructs of Pfleiderer MDF Grajewo Sp. z o.o. in Grajewo; and

c) Mortgage over properties and perpetual usufructs of Pfleiderer Silekol Sp. z o.o. in Kędzierzyn-Koźle.

(v) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. executed the submissions to enforcement (oświadczenie o poddaniu się egzekucji) in favour of the Security Agent.

Security interests under the Senior Facilities Agreement originally dated 13 April 2017 (and having been amended and restated on 31 July 2018) (German entities)

Following the initial utilization of the facilities under the senior facilities agreement originally dated 13 April 2017, and having been amended and restated on 31 July 2018, the existing security interests granted by the German Pfleiderer entities to secure the repayment of claims of Commerzbank Aktiengesellschaft, Filiale Luxemburg, acting as security agent (the "Security Agent") arising from the parallel debt in accordance with the intercreditor agreement dated 4 July 2014 (as amended and restated) entered into in connection with the EUR 60 million and PLN 200 million RCF Agreement dated 4 July 2014 (as amended and restated) between, inter alias, Pfleiderer Group S.A. and certain of its subsidiaries as borrowers, the Security Agent and certain financial institutions as original lenders and the EUR 321 684 thousand Senior Secured Notes due 1 August 2017 issued by PCF GmbH have been released.

In order to secure the new obligations under the senior facilities agreement originally dated 13 April 2017, and having been amended and restated on 31 July 2018, the following security interests have been granted for the benefit of the lenders, whereby Wilmington Trust (London) Limited is acting as new security agent (the "New Security Agent"):

(i) Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland GmbH as pledgors granted pledges over shares in PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH.

(ii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH as pledgors granted pledges over their major bank accounts.

(iii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH as assignors assigned as security their receivables under the intercompany loans, material trade and insurance receivables.

(iv) The existing German land charges have been assigned to the New Security Agent.

Guarantees by the members of the Group

As at 13 April 2017, certain members of the Group have guaranteed the liabilities under the senior facilities agreement (as amended and restated), such members of the Group are: Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o., Pfleiderer Silekol Sp. z o.o. The amounts outstanding under the senior secured revolving credit facility dated 4 July 2014 and the senior notes issued on 27 June 2014 have been refinanced by the senior facilities agreement dated 13 April 2017 (as amended and restated).

3.3. EXPLANATION OF THE ECONOMIC AND FINANCIAL DATA IN THE ANNUAL STANDALONE FINANCIAL STATEMENTS

As a result of internal Group reorganisation performed in Poland in 2016, Pfleiderer Group S.A. became a pure holding company and starting from 1 January 2017 conducts activities related only to this function.

3.3.1. STANDALONE STATEMENT OF PROFIT OR LOSS

TABLE 17: STANDALONE STATEMENT OF PROFIT OR LOSS

	'000 PLN		'000 EUR	
	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Results from operating activity	-15 475	-31 446	-3 632	-7 388
Profit before tax	140 584	419 336	32 998	98 517
Net profit for the reporting period	144 442	415 542	33 903	97 625
Basic earnings per share (in PLN/EUR)	2.54	6.49	0.60	1.53
Diluted earnings per share (in PLN/EUR)	2.54	6.49	0.60	1.53
Average PLN/EUR exchange rate			4.2604	4.2565

Lower net profit for the reporting period of PLN 144 442 thousand compared to net profit of PLN 415 542 thousand in 2017 results mainly from the following reasons:

- Lower dividend income (PLN 202 837 thousand in 2018, PLN 413 318 thousand in 2017);
- Negative foreign exchange differences on valuation of intercompany loans, taken to finance buy back of own shares and valuation of other financial liabilities, representing an obligation taken over from Atlantik S.A. (foreign exchange loss of PLN 20 619 thousand in 2018 compared to foreign exchange gain of PLN 49 472 thousand in 2017)

Offset by lower operating loss resulting from recognizing in 2017 the provision for legal cost and the penalty to antitrust proceedings (PLN 17 682 thousand).

3.3.2. STANDALONE STATEMENT OF FINANCIAL POSITION

TABLE 18: STANDALONE STATEMENT OF FINANCIAL POSITION

	'000 PLN		'000 EUR	
	31 Dec. 2018	31 Dec. 2017 (restated)	31 Dec. 2018	31 Dec. 2017 (restated)
Total assets	2 278 687	2 305 734	529 755	552 007
Liabilities	1 143 549	862 496	265 855	206 487
Non-current liabilities	124	4 121	29	987
Current liabilities	1 143 425	858 375	265 826	205 500
Equity	1 135 138	1 443 238	263 900	345 520
Share capital	21 351	21 351	4 964	5 112
Number of shares	64 701 007	64 701 007	64 701 007	64 701 007
Book value per share (in PLN/EUR)	17.54	22.31	4.08	5.34
PLN/EUR exchange rate as at the end of the reporting period			4.3014	4.1770

3.3.3. STANDALONE STATEMENT OF CASH FLOWS

TABLE 19: STANDALONE STATEMENT OF CASH FLOWS

	'000 PLN		'000 EUR	
	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Net cash provided by operating activities	-12 571	-20 751	-2 951	-4 875
Net cash provided by/ used in investing activities	189 867	81 918	44 566	19 245
Net cash used in financing activities	-106 524	-61 431	-25 003	-14 432
Total net cash flow	70 772	-264	16 612	-62
Average PLN/EUR exchange rate			4.2604	4.2565

3.4. NON-RECURRING EVENTS

There were no non-recurring events that might affect the Group or Pfleiderer Group S.A.'s financial performance in 2018.

3.5. PROJECTED FINANCIAL RESULTS

The Management Board of Pfleiderer Group S.A. has not published projections of its financial results or consolidated financial results for the 2018 financial year.

3.6. RATINGS

TABLE 20: RATINGS AWARDED TO PFLEIDERER GROUP

	Rating date	Company's long-term rating	Rating outlook
Standard & Poor's Ratings Services	13.07.2018	B+	Stable
Moody's Investors Service	13.07.2018	B1	Stable
Standard & Poor's Ratings Services	28.03.2018	B+	Stable
Moody's Investors Service	26.02.2018	Ba3	Stable
Standard & Poor's Ratings Services	24.03.2017	B+	Positive

Moody's Investors Service	22.03.2017	Ba3	Stable
Standard & Poor's Ratings Services	20.01.2017	B+	Positive
Standard & Poor's Ratings Services	29.01.2016	B	Positive
Moody's Investors Service	26.01.2016	B1	Positive

3.7. AUDITOR

The standalone and consolidated financial statements are audited and reviewed on the basis of the decision made by the General Meeting on 21 June 2017 on appointment of the auditor. Pursuant to the resolution, the following entity was appointed the auditor:

Deloitte Audyt Spółka z ograniczoną odpowiedzialnością sp. k.

Al. Jana Pawła II 22

00-133 Warszawa, Poland

The financial statements were audited pursuant to the agreement executed between Deloitte and Pfleiderer Group S.A.

In audited period, the fees due to Deloitte related to audit services amounted to EUR 354 thousand. These encompassed the review 1H 2018 financial statements as well as audit of 2018 stand-alone and group financial statements. Additional services not connected with the audit amounted to EUR 86.4 thousand.

In prior year, the fees due to Deloitte related to audit services amounted to EUR 342 thousand. These encompassed the review 1H 2017 financial statements as well as audit of 2017 stand-alone and group financial statements.

Apart from the abovementioned audit services the services not connected with the audit of financial statements were provided in 2017 in the amount of EUR 80 thousand.

3.8. FINANCIAL INSTRUMENTS

Derivative instruments

Forward and swap agreements are forward foreign currency transactions conducted at a predetermined exchange rate. The Group applies hedge accounting, which results in the effective portion of gains or losses on fair value of hedging instruments (forward transactions) is included in other comprehensive income and presented as a separate equity position "cash flow hedge". The gains or losses previously recognised in other comprehensive income are transferred to profit or loss over the same period and in the same position in which the hedged cash flows are recognised in the statement of comprehensive income. The ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Borrowings

As at 31 December 2018, the Group did not carry any borrowings from related parties.

Bank loans and corporate bonds

Use of bank borrowings

TABLE 21: BORROWINGS AND OTHER DEBT INSTRUMENTS

'000 Euro	31 Dec. 2018	31 Dec. 2017
Bank borrowings	425 875	336 155
Non-current liabilities	**425 875**	**336 155**
Current portion of bank borrowings	1 669	2 333
Other interest bearing liabilities	4 542	196
Current liabilities	**6 211**	**2 529**
TOTAL	432 086	338 684

Bank loans

Senior Facilities Agreement – entered into force on 1 August 2017

On 13 April 2017 Pfleiderer Group S.A., PCF GmbH and certain of its German and Polish subsidiaries, Credit Suisse International, Deutsche Bank AG, London Branch, Goldman Sachs Bank USA and others as mandated lead arrangers, Wilmington Trust (London) Limited and Trigon Dom Maklerski S.A. as security agents (the "Security Agent") and others entered into a EUR 450 000 000 senior facilities agreement which initial utilization took place on 1 August 2017. Pfleiderer used those amounts to repay the Senior Secured Notes issued 27 June 2014 (PCF GmbH), the existing credit facility agreements originally dated 4 July 2014 and for general corporate purposes and working capital requirements of the Group. The EUR 450 000 000 is split into a Term Loan B ("TLB") amounting to EUR 350 000 000 (PCF GmbH) with a tenor of seven years – fully drawn and Revolving Credit Facilities with a tenor of five years amounting to EUR 50 000 000 (Revolving Facility 1) and PLN 211 480 000 (Revolving Facility 2).

On 31 July 2018, the Senior Facilities Agreement originally dated 13 April 2017 was amended and restated. The total amount of senior secured term loan B increased by EUR 95 million from EUR 350 million to EUR 445 million, the volume of the Revolving Credit Facilities remains unchanged. Final maturity dates within the senior facilities agreement remain unchanged.

At the reporting date these Revolving Credit Facilities were not drawn in cash whilst bank guarantees were issued within the Revolving Facility 2 for the total amount of PLN 6 265 thousand as well as Letters of Credit in an amount of EUR 1 129 thousand. The Revolving Facility 1 is partially drawn for bank guarantees of EUR 2 296 thousand and PLN 520 thousand (EUR 122 thousand) as well as Letters of Credit in an amount of EUR 5 040 thousand. Interest on cash drawings is accrued at EURIBOR (for EUR-drawings) plus margin, WIBOR (for PLN-drawings) plus margin, LIBOR (for drawings in other currencies) plus margin.

TABLE 22: FINANCINGS CORE EAST (EXLUDING FACTORING AND OPERATING LEASES)

'000 EUR					31 Dec. 2018			31 Dec. 2017		
Lender	Currency	Interest rate	Duration from	Duration to	Credit limit EUR	Drawn amount EUR	Undrawn amount EUR	Credit limit EUR	Drawn amount EUR	Undrawn amount EUR
Revolving Credit Facility (PLN)										
Bank Millennium S.A.	PLN	WIBOR + margin	1 Aug 2017	1 Aug 2022	20 410	4 232	16 178	18 930	0	18 930
Alior Bank S.A.	PLN	WIBOR + margin	1 Aug 2017	1 Aug 2022	18 332	0	18 332	18 878	0	18 878
Raiffeisen Bank Polska S.A.	PLN	WIBOR + margin	1 Aug 2017	1 Aug 2022	7 585	0	7 585	7 811	0	7 811
Guarantees Core East										
Bank Millenium S.A.	PLN		1 Aug 2017	1 Aug 2022	2 373	2 373	0	4 532	4 532	0
bank guarantee/s issued in PLN					1 457	1 457	0	1 739	1 739	0
bank guarantee/s issued in EUR					0	0	0	0	0	0
Letter/s of Credit issued in EUR year-end [EUR 2 428 000]					0	0	0	2 792	2 792	0
Letter/s of Credit issued in EUR actual [EUR 797 240]					917	917	0	0	0	0
Limit of credit cards East										
Bank Millenium S.A.	PLN		1 Aug 2017	1 Aug 2022	465	0	465	479	0	479
TOTAL CORE EAST Credit facilities					**49 165**	**6 605**	**42 560**	**50 630**	**4 532**	**46 098**

TABLE 23: FINANCINGS CORE WEST (EXLUDING FACTORING AND OPERATING LEASES)

'000 EUR						31 Dec. 2018			31 Dec. 2017		
Lender	Currency	Interest rate	Duration from	Duration to		Credit limit EUR	Drawn amount EUR	Undrawn amount EUR	Credit limit EUR	Drawn amount EUR	Undrawn amount EUR
Revolving Credit Facility (EUR)											
Alior Bank S.A.	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022		5 000	0	5 000	5 000	0	5 000
Bank of China	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022		10 000	0	10 000	10 000	0	10 000
Commerzbank AG	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022	*)	7 548	0	7 548	12 370	0	12 370
Deutsche Bank AG	EUR	EURIBOR + margin	1 Aug 2017	2 Aug 2018	**)	0	0	0	12 000	0	12 000
Goldman Sachs Bank USA	EUR	EURIBOR + margin	2 Aug 2018	1 Aug 2022	**)	15 000	0	15 000	0	0	0
Raiffeisen Bank Polska S.A.	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022		5 000	0	5 000	5 000	0	5 000
Guarantees Core West											
Commerzbank AG	EUR		1 Aug 2017	1 Aug 2022		7 452	7 452	0	2 630	2 630	0
bank guarantee issued in EUR						2 291	2 291	0	2 257	2 257	0
bank guarantee issued in PLN						121	121	0	373	373	0
letter of credit issued in EUR						5 040	5 040	0	0	0	0
Deutsche Bank AG (Ancillary – Guarantees)			1 Aug 2017	2 Aug 2018	**)	0	0	0	3 000	0	3 000
Other debt instruments											
Term Loan B (TLB)	EUR		1 Aug 2017	1 Aug 2024		445 000	445 000	0	350 000	350 000	0
TOTAL CORE WEST Credit facilities						**495 000**	**452 452**	**42 548**	**400 000**	**352 630**	**47 370**

*) Total RCF-limit with Commerzbank AG is EUR 15m, adding cash-line and ancillary used for guarantees

**) Transfer/Assignment of RCF-participation from Deutsche Bank AG to Goldman Sachs Bank USA (EUR 15m) as per 02 August 2018

Liabilities under borrowings from related parties

As at 31 December 2018 and 31 December 2017, the Group did not carry any borrowings from related parties.

Standalone

Loans – Pfleiderer Group S.A.

Loans advanced:

As at 31 December 2018, the Company has loan receivables of PLN 29 465 thousand (compared to PLN 108 213 thousand as of 31 Dec 2017) granted to subsidiary Pfleiderer MDF Grajewo Sp. z o.o. Interest on loans are accrued on a monthly basis. The loans granted to Pfleiderer MDF Grajewo Sp. z o.o. are denominated in PLN and bear interests at 1M WIBOR rate plus margin. On 29 June 2018 PLN 82 000 thousand was repaid by Pfleiderer MDF Grajewo Sp. z o.o. to the lender. Additionally on 28 February 2019, the Company received cash in the amount of PLN 29,658 thousand from Pfleiderer MDF Grajewo Sp. z o.o. in respect of repayment of the outstanding loans along with interests accrued till repayment date.

Liabilities under borrowings from related parties

Liabilities under borrowings from related parties comprise the following balances:

- Obligation taken over from Atlantik S.A. of EUR 127 953 thousand (PLN 550 200 thousand); as at 31 December 2017 EUR 127 226 thousand (PLN 530 648 thousand).
- Loan granted by PCF GmbH on 2 October 2017 to finance the purchase of treasury shares was fully settled by partial repayment of interest and compensation with receivable from dividend on the basis of offsetting agreements of 31 July and 31 December 2018. As at 31 December 2017 the loan balance was EUR 26 118 thousand (PLN 108 935 thousand).
- Loan granted by PCF GmbH to finance the subsequent purchase of treasury shares, of EUR 9 276 thousand (PLN 39 887 thousand). On 30 January 2018 PCF GmbH, as the lender, and Pfleiderer Group S.A., as the borrower, entered into the upstream loan agreement amounting to EUR 15 000 thousand. A purpose of the loan was to provide a financing for a purchase of the treasury shares performed by the Pfleiderer Group S.A. The loan was granted on 2 February 2018 and subsequently on 6 February 2018, unused amount of EUR 6 000 thousand was repaid to the lender.
- Loan granted by PCF GmbH in order to continue the purchase of treasury shares, of EUR 96 877 thousand (PLN 416 572 thousand). On 8 August 2018 PCF GmbH, as the lender and Pfleiderer Group S.A. as the borrower, entered into a loan agreement amounting to EUR 95 000 thousand. A purpose of the loan was to provide a financing for a continuation of purchase of the treasury shares performed by the Pfleiderer Group S.A. The loan was granted on 2 August in non-cash tranche in amount EUR 6 411 thousand to cover any commissions and bank fees related to acquired financing and in cash on 20 August 2018 in amount EUR 88 589 thousand.

Interest accrued in 2018 on the above loans amounted to EUR 6 770 thousand (PLN 28 980 thousand). In the period 1 Jan – 31 Dec 2018 the Company has repaid interests of EUR 3 050 thousand (PLN 12 904 thousand) due on obligation taken over from Atlantik S.A. and of EUR 1 133 thousand (PLN 4 815 thousand) due on first buy back loan.

Defaults under borrowing agreements where no remedial action was taken before the end of the reporting period

As at 31 December 2018, no such events occurred.

Derivatives

On 31 December 2018 the Company did not have any open foreign exchange forward transactions.

Commercial paper program

The commercial paper program, carried out pursuant to an agreement of 22 July 2003 with PEKAO S.A., consists of issuance of short-term notes. The notes are issued in accordance with the Polish Bonds Act of 29 June 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form.

The notes issued by Pfleiderer Group S.A., maturing in up to one year, are acquired by Pfleiderer Wieruszów Sp. z o.o. and Pfleiderer Polska Sp. z o.o. through Bank PEKAO S.A. Thanks to this arrangement, Pfleiderer Group S.A. does not use higher-rate bank loans and Pfleiderer Wieruszów Sp. z o.o. as well as Pfleiderer Polska Sp. z o.o. has deposits bearing higher interest than such instruments as treasury bills. The Bank's fee is the cost incurred by the Company in connection with the

issue. The notes are a discount instrument – they are issued at a discount to their nominal value and repurchased by the issuer at nominal value.

As at 31 December 2018, the Company's debt under issued notes totaled PLN 92 932 thousand (as at 31 December 2017 146 869 thousand). The notes are used to optimize the management of financial liquidity within the Group, reduce external debt and finance day-to-day operations.

3.9. MANAGEMENT OF THE PFLEIDERER GROUP'S FINANCIAL RESOURCES IN 2018

Financial resource management involves borrowing arrangement, which is used to finance working capital, current operations, investment and cash management.

Proper management of financial resources is a factor supporting the implementation of other management areas, including operational management, strategic and investment projects. This is done in the first place through regular financial projections, including projections of debt over a five-year horizon, and then arranging the appropriate sources of funding, in the form of bank loans, capital market instruments, factoring and ABCP program. Cash Management at Pfleiderer Group aims at optimising the financial costs by minimizing cash and using cash surpluses to repay bank loans, which may at any time be re-used. The second cash management objective is to reduce the currency risk to which the Group is exposed due to large-scale imports and exports. Pfleiderer Group finances its operations through own funds as well as a revolving credit facility and a so-called TLB (term loan B).

On 13 April 2017 the Group finalized and signed refinancing agreements of EUR 450.0 million senior secured credit facilities comprising:

- a EUR 350.0 million 7-year covenant-light term loan B facility carrying an interest Euribor + margin (Euribor floor: 0.75%) and 99.0 OID and
- the new EUR 100.0 million 5-year revolving credit facility that will have an interest Euribor + margin (Euribor floor: 0%).

The proceeds from the Facilities were used to redeem the EUR 321 684 000 senior secured notes issued by PCF GmbH (formerly Pfleiderer GmbH) ("Notes") in full, refinance the existing senior secured revolving credit facility and fund related transaction fees, redemption premium and expenses as well as for general corporate purposes and working capital requirements.

As at the reporting date, the structure of financing of the Group's assets was as follows:

TABLE 24: STRUCTURE OF FINANCING OF THE GROUP'S ASSETS AS AT THE REPORTING DATE

'000 EUR	31 Dec. 2018	31 Dec. 2017
Equity (attributable to the owners of the Company)	133 270	234 474
Total Equity	133 270	234 474
Non-current liabilities	545 827	465 447
Long term capital (total equity + non-current liabilities)	679 097	699 921
Current liabilities	223 070	244 562

Financial standing of Pfleiderer Group S.A. - Standalone

TABLE 25: STRUCTURE OF FINANCING OF THE COMPANY'S ASSETS AS AT THE REPORTING DATE

'000 PLN	31 Dec. 2018	31 Dec. 2017
Total Equity	1 135 138	1 443 238
Non-current liabilities	124	4 121
Long term capital (total equity + non-current liabilities)	1 135 262	1 447 359
Current liabilities	1 143 425	858 375

In 2018, Pfleiderer Group S.A. financed itself from the surplus of received dividends from subsidiaries (PLN 108 089 thousand) over the dividend paid to shareholders (PLN 71 165 thousand), as well as from the repayment of the loans by the subsidiary Pfleiderer Grajewo MDF Sp. z o.o. in the amount of PLN 82 000 thousand. These inflows allowed to redeem part of short-term debt securities from the subsidiary Pfleiderer Wieruszów Sp. z o.o. (PLN 53 957 thousand), to cover current financing service costs and their settlement between the Group companies and the costs of holding activities adjusted for a change in working capital.

The Company's current liabilities line consists mainly of debt outstanding under short-term notes in issue amounting to PLN 92 932 thousand, intercompany loan taken to finance buy back of shares of PLN 456 459 thousand and other financial liabilities of PLN 550 200 thousand representing an obligation taken over from Atlantik S.A. (detailed information was disclosed in the notes to stand alone financial statements).

3.10. FINANCIAL RISKS RELATED TO THE PFLEIDERER GROUP'S OPERATIONS

Objectives and methods of financial risk management applied by the Pfleiderer Group

The Group's Management has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

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

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

The objective behind credit risk management is to reduce the Group's losses which could follow from customers' insolvency. This risk is mitigated with the use of receivables insurance and factoring agreements and ABCP programme (Asset based commercial papers).

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

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

Derivative (currency forwards) transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing relevant documentation.

The objective of currency risk management is to minimize losses arising out of unfavourable changes in foreign exchange rates. The Group monitors its currency position from the point of view of cash flows. To manage its currency risk, it first relies on natural hedging and where necessary uses forward contracts. The time horizon adopted for position monitoring and hedging transactions is analysed on a case by case basis.

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

The Group is exposed to credit risk, interest rate risk and currency risk in the ordinary course of business. Financial derivatives are used to hedge the risk related to exchange rate fluctuations.

Credit risk

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

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

Credit risk associated with bank deposits is assessed by the Group as low due to deposits of its assets only in financial institutions which have a high short-term credit rating.

The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group operates a strict receivables management policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and factoring (Segment East) and ABCP program (Segment West).

In 2018, approximately 95% of the Group's trade receivables were secured with insurance. In the event of insolvency of customers who have insurance coverage, compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit). The Group did not incur any significant losses due to customer default. Allowances for impairment losses are recognised on uninsured receivables and on amounts corresponding to the Group's deductibles for receivables that are insured, based on detailed impairment analysis of accounts receivable.

The carrying amount of each financial asset, including financial derivatives, represents the maximum credit risk exposure.

Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings and TLB. The interest rate risk is related to interest payments with floating interest rates. The Group does not hedge the interest rate risk for the time being. The Group monitors the level of interest costs on a regular basis.

Currency risk

The Group is exposed to currency risk mainly due to the extent that there is a mismatch between the currencies in which trade transactions, purchases of materials and merchandise and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is primarily the Euro (EUR) and Polish zloty (PLN). The main currencies in which foreign currency transactions are denominated are Euro, US dollars and pound sterling (GBP). However, foreign exchange gains or losses resulting from exchange rate fluctuations mostly offset each other (natural hedging).

The Group also incurs capital expenditures in foreign currencies. The Group monitors its foreign currency positions on an ongoing basis and hedges its currency risk of open positions with forward transactions. In 2018, the Group used forward contracts to hedge its currency risk related to commercial transactions (export of goods). The forward contracts used to hedge the Group's commercial transactions in Core East consist of the sale of EUR at a pre-determined rate. This helps to secure margins on export sales and to mitigate the risk of adverse changes of the margins due to appreciation of the Polish zloty.

Forward contracts are measured at the end of each month.

Liquidity and material cash-flow disruptions risk

Parent and subsidiaries companies are protected against any material cash-flow disruptions thanks to credit facilities available at any time. Material cash-flow disruptions are also unlikely due to customer diversification. All extraordinary expenditure is always planned well ahead and accounted for in the liquidity management process.

The Group monitors its liquidity on an ongoing basis, both with respect to short-term liquidity and long-term liquidity.

TABLE 26: STRUCTURE OF ASSETS, EQUITY AND LIABILITIES DISCLOSED IN THE CONSOLIDATED BALANCE SHEET

		31 Dec. 2018	31 Dec. 2017
Current ratio	Current Assets / Current liabilities	0.8	0.9
Quick ratio	(Receivables + Cash) / Current liabilities	0.3	0.5
Average collection period	Average trade and other receivables / Revenue / 360	11.8	12.3
Average payment period	Average trade and other payables / Cost of goods sold / 360	78.5	77.2
Inventory turnover ratio	Average inventories / Cost of goods sold / 360	46.5	43.7

Financial risks related to the Pfleiderer Group S.A. operations – stand alone

Credit risk

Further to contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. executed on 31 August 2016, credit risk is limited due to the fact that the Company does not perform any operating activity and does not have any trade receivables, with exception to the intercompany receivables.

The credit risk exposure relates mostly to the loans granted to its subsidiary Pfleiderer MDF Grajewo Sp. z o.o. (PLN 29 465 thousand as of 31 December 2018). On 28 February 2019 the loans were fully repaid.

Currency risk

The Company's currency risk is mainly related to the euro denominated loans from a subsidiary, drawn to finance the buyback of treasury shares (EUR 106 153 thousand) and other finance liabilities related to an obligation taken over from Atlantik S.A. (EUR 127 953 thousand).

The risk of changes in the prices of financial instruments

The Company is not exposed to any material price risk associated with financial instruments.

Liquidity risk and risk of significant disruptions in cash flows

The Company is protected against any material cash-flow disruptions thanks to credit facilities available at any time. All extraordinary expenditure is always planned well ahead and accounted for in the liquidity management process. The Company monitors its liquidity on an ongoing basis, both with respect to short-term liquidity and long-term liquidity (a few years forward).

SHARES AND SHAREHOLDING STRUCTURE

4. SHARES AND SHAREHOLDER STRUCTURE

4.1. SHAREHOLDER STRUCTURE

TABLE 27: SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2018

	Number of shares	% of equity	Number of votes an GM	Percentage of votes on GM
Strategic Value Partners LLC	19 183 149	29.65%	19 183 149	29.65%
Atlantik S.A.	12 474 561	19.28%	12 474 561	19.28%
Aviva OFE Aviva Santander	6 241 000	9.65%	6 241 000	9.65%
Treasury shares (*)	12 940 201	20.00%	12 940 201	20.00%
Other shareholders	13 862 096	21.42%	13 862 096	21.42%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

(*) In accordance with article 364 Paragraph 2 of the Commercial Companies Code, the Company does not exercise the shareholder rights attached to the treasury shares, except for the right to transfer shares or perform actions to preserve shareholder rights.

Announced treasury shares repurchase programme

Date of purchase	Number of purchased shares	Total price incl. costs (thousand PLN)
12 October 2017	3 235 050	152 701
07 February 2018	2 150 883	80 867
27 February 2018	11 000	413
24 August 2018	7 543 268	302 406
TOTAL	**12 940 201**	**536 387**

On 12 October 2017 the Company bought back 3 235 050 treasury shares. The purchase of treasury shares was concluded based on an invitation to submit offers for the sale of shares in the Company announced by the Company on 20 September 2018. In addition the treasury shares were purchased in connection with the implementation of the treasury share buyback programme approved under a resolution of the Company's Annual General Meeting on 21 June 2017. The price for the treasury shares was PLN 47 per share. The total price for all shares was PLN 152 047 350. Costs related to the purchase amounted to PLN 654 thousand.

On 7 February 2018 the Company purchased 2 150 883 treasury shares. The basis for the purchase was an invitation to submit offers for the sale of shares in the Company announced by the Company on 18 January 2018. The purchase price for the treasury shares amounted to PLN 37.5 per one share. The total price for all of the purchased shares amounted to PLN 80 658 112.50.

On 27 February 2018 the Company purchased 11 000 treasury shares, with a nominal value of PLN 0.33 each. The purchase price for the treasury shares amounted to PLN 37.5 per one share. The total price for all of the purchased shares amounted to PLN 412 500.

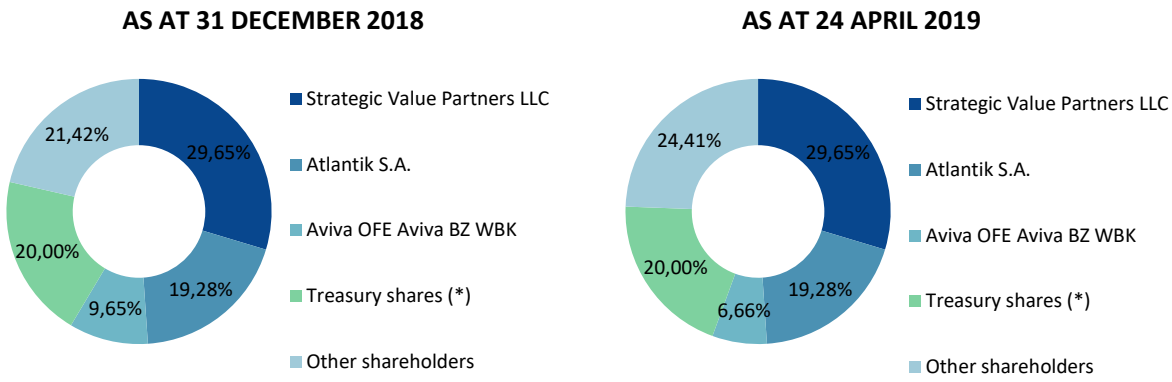
Pursuant to the resolution of the Ordinary General Meeting of Shareholders of the Company dated 21 June 2017, the shares purchased under the programme may be: (i) oferred to persons entitled purchase shares under the Company's incentive programme (ii) redeemed; or (iii) otherwise disposed of by the Management Board of the Company, subject to a consent of the Supervisory Board, with a view to the needs resulting from the Company's business.

On 24 August 2018 the Company purchased 7 543 268 treasury shares. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 4 August 2018. The purchase price for the treasury shares amounted to PLN 40 per one share. The total price for all of the purchased shares amounted to PLN 301 730 720. The treasury shares were purchased in connection with the implementation of the treasury share repurchase programme approved under the resolution no. 24 of the Company's Annual General Meeting of the Shareholders dated 11 June 2018. Costs related to the purchase amounted to PLN 675 thousand.

Pursuant to the resolution of the Ordinary General Meeting of Shareholders of the Company dated 11 June 2018, the shares purchased under the programme may be: (i) redeemed; or (ii) otherwise disposed of by the Management Board of the Company, subject to a consent of the Supervisory Board, with a view to the needs resulting from the Company's business.

The total number of treasury shares purchased by the Company at the date of publication of this report is 12 940 201. The total nominal value of all purchased treasury shares is PLN 4 270 266.33, representing approximately 20% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of approximately 20% of the votes at the general meeting of the Company, which represents approximately 20% of the overall number of votes in the Company, provided that the Company does not exercise the voting rights attached to the treasury shares.

FIGURE 16: SHAREHOLDER STRUCTURE



4.2. DIVIDEND POLICY

At the end of November 2015, the Management Board revised its dividend policy. It assumes that, starting from the financial year ended 31 December 2017, the Company, after fulfilling the legal requirements and depending on market conditions, will allocate up to 70% of its consolidated earnings to be paid as a dividend.

In 2018 Pfleiderer Group paid to shareholders above PLN 71 million of dividend

At 11 May 2018 the Management Board adopted a resolution on a motion of the Management Board to General Meeting of Shareholders concerning distribution of the Company's profit for year 2017 and recommended assigning PLN 71 164 888.80 for payment of the dividend amounting to PLN 1.20 per share. The above motion was positively opined by the Supervisory Board of the Company on 15 May 2018.

The Ordinary General Meeting of Shareholders of the Company resolved on 11 June 2018 to allocate the net profit for the period from 1 January to 31 December 2017, amounting in total to PLN 415 542 thousand, as follows:

a) in the amount of PLN 71 164 888.80, i.e. PLN 1.20 per share, to the payment of dividends to the Company's shareholders,

b) the remaining amount to the Company's supplementary capital.

The Ordinary General Meeting of Shareholders of the Company set the date used to prepare the list of shareholders eligible to receive the above dividend (record date) for 17 June 2018. The dividend payment date was set for 11 July 2018.

As of 17 June 2018 the Company held 5 396 933 treasury shares. Pursuant to Article 364 Paragraph 2 of the Commercial Companies Code the Company did not receive any dividends as the holder of the above mentioned treasury shares.

TABLE 28: DIVIDEND

		2018	2017
Dividend	PLN	71 164 888.80	71 171 107.70
Dividend per share (DPS) (*)	PLN	1.20	1.10
Dividend yield (DY) (**)		3.2%	2.4%

(*) DPS = dividend paid/total number of shares

(**) DY = (DPS/share price on the last day granted to purchase shares with the right to a dividend***)

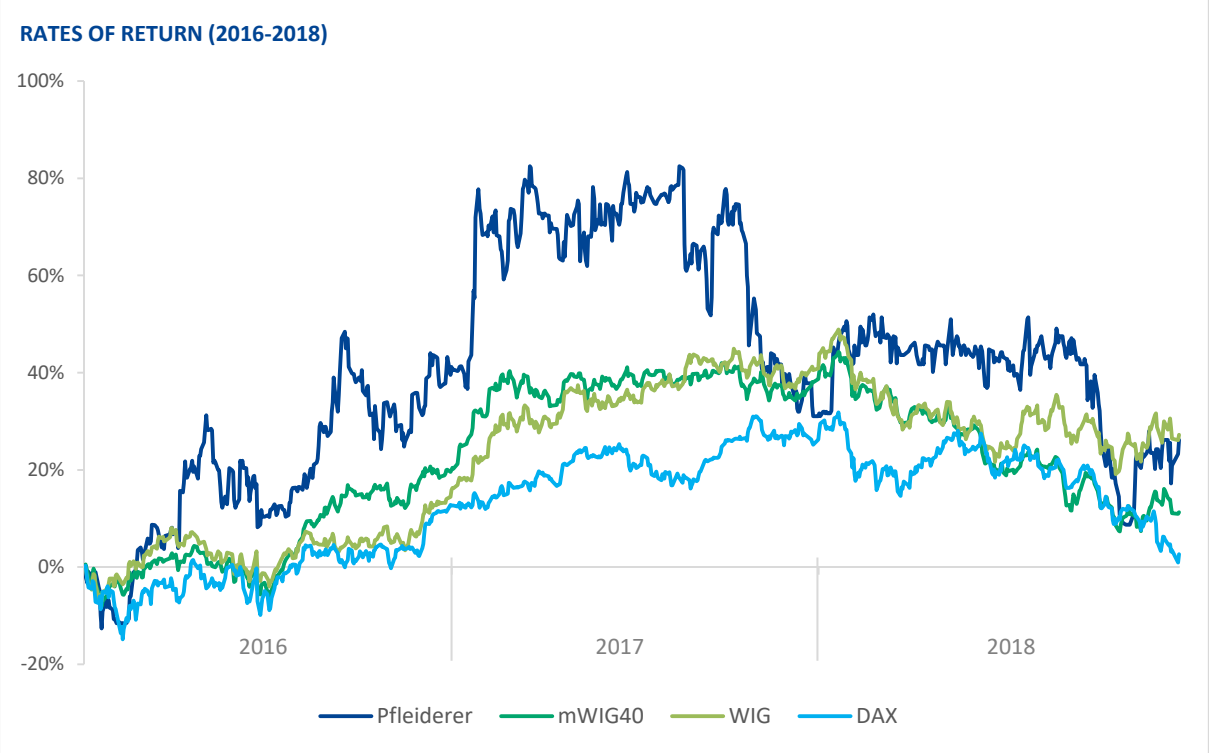
(***) share price two business days before the dividend record date

4.3. COMPANY'S SHARE PRICE ON THE WARSAW STOCK EXCHANGE

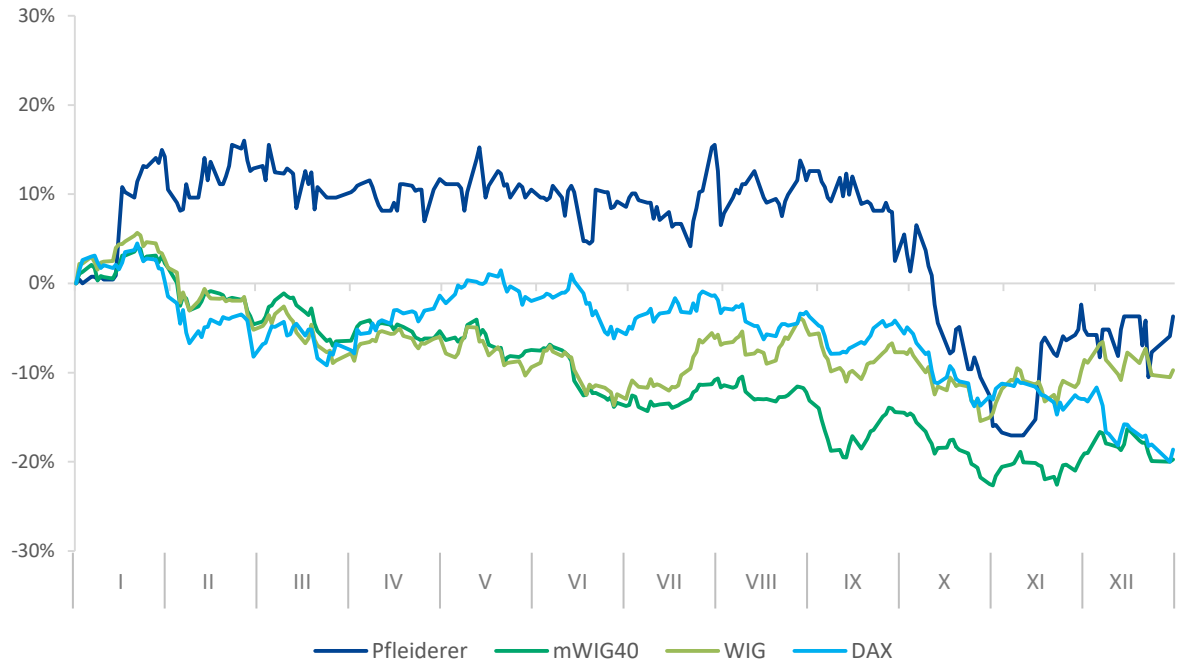
TABLE 29: PFLEIDERER GROUP ON THE WSE – COMPANY HIGHLIGHTS

Company data	
Company name	Pfleiderer Group
Abbreviated name	PFLEIDER
Ticker	PFL
ISIN	PLZPW0000017
Bloomberg ticker	PFL PW
Listed since	6.05.1997
Number of outstanding shares	64 701 007
Free float	24.41
Sector	Wood
Indices	mWIG40 (0.840%); as of March 18th, 2019 – sWIG80 (3,13%) WIG (0.178%) WIG-Poland (0.182%)

FIGURE 17: EVOLUTION OF THE PFLEIDERER GROUP SHARE PRICE COMPARED TO INDICES

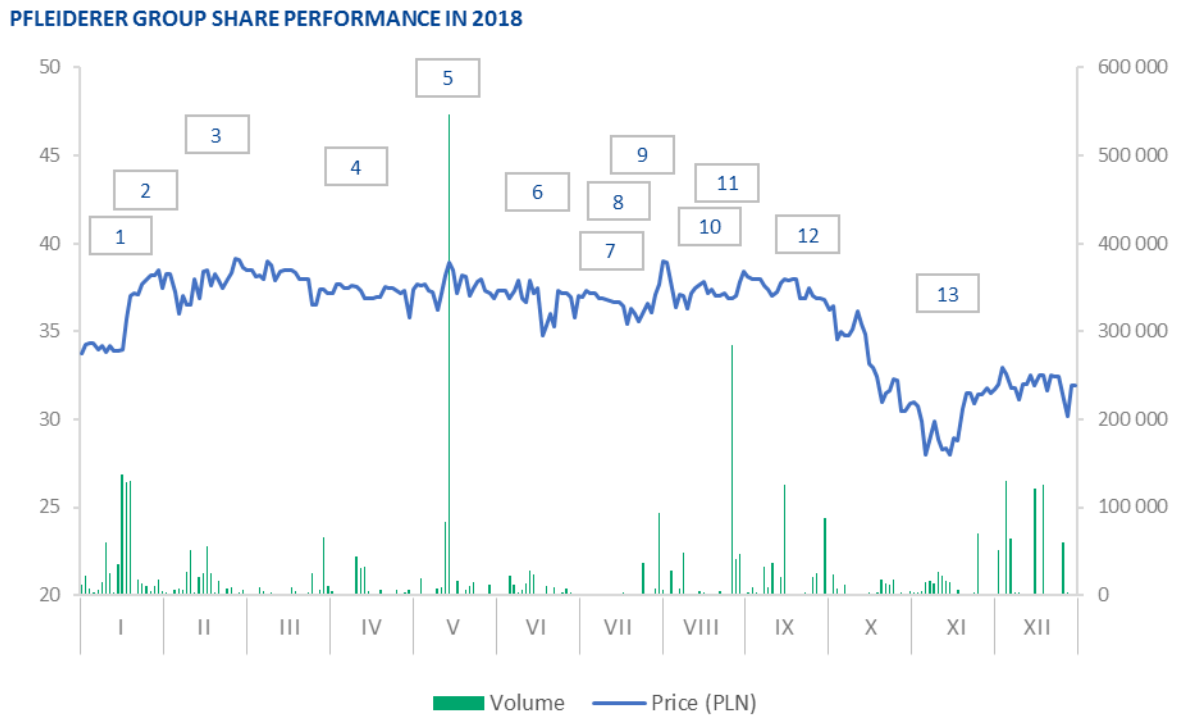


RATES OF RETURN (1.01.2018 – 31.12.2018)



- During most of 2018 PFL shares have been performing better than the WIG index
- Share buyback supported the share price through the first months of the year
- Share price suffered downward trend after share buyback program had been completed, but recovered following the publication of Q3 2018 financial results and updated strategic goals for 2021
- Mid-cap and small-cap firms' valuations suffered from difficulties in Polish investment fund sector

FIGURE 18: PFLEIDERER GROUP QUOTATIONS IN 2018



1	18 January: Creating provisions at Pfleiderer Wieruszów and Pfleiderer Group for potential UOKiK fine
2	30 January: Appeal against UOKiK's decision to fine Pfleiderer Group and Pfleiderer Wieruszów
3	27 February: Dr Nico Reiner appointed CFO
4	11 April: Publication of 2017 annual financial results
5	16 May: Publication of quarterly financial results for Q1, 2018
6	11 June: General Meeting sets the dividend payment for 2017 (PLN 1.2 per share)
7	11 July: Dividend payment date
8	13 July: Downgrade of corporate family rating to B1 from Ba3 by Moody's
9	30 July: Securing financing for last stage of share buyback
10	22 August: Publication of interim financial results for H1, 2018
11	24 August: Completion of share buyback programme
12	30 September: Publication of financial results for H1 2018
13	14 November: Publication of quarterly financial results for Q3, 2018; Announcement of updated 2021 strategic goals

TABLE 30: SHARE-RELATED INFORMATION FOR PFLEIDERER GROUP S.A.

	2018	2017	2016
Number of shares	64 701 007	64 701 007	64 701 007
Closing share price at the last session of the year (PLN)	32.50	33.75	36,90
Capitalisation at the end of the year (PLN m)	2 102.78	2 183.66	2 387.47
Maximum share price (PLN)	39.90	47.90	38.50
Minimum share price (PLN)	27.35	32.60	21.61
Average share price (PLN)	35.71	42.21	30.53
Average trading value per session (PLN m)	0.59	1.42	1.18
Average trading volume per session (units)	16 380	35 116	38 249

TABLE 31: CAPITAL MARKET RATIOS FOR PFLEIDERER GROUP S.A. SHARES

	31 Dec. 2018	31 Dec. 2017	31 Dec. 2016
EPS (PLN)	0.43	1.14	1.01
P/E (x)	76.28	29.61	35.59
P/BV (x)	3.67	2.23	1.98
EV/EBITDA (X)	9.24	9.40	10.34

4.4. INVESTOR RELATIONS IN PFLEIDERER GROUP

In order to meet the highest information governance requirements for public companies and fulfill the information needs of different groups of stakeholders, the Management Board of Pfleiderer Group undertakes various investor relations activities aimed at improving transparency. In 2018 Pfleiderer Group performed a number of activities to improve efficient communication with the capital market.

Activities dedicated to investors – summary

Over 160	Participants at quarterly conferences for analysts and fund managers (FY 2017, Q1, H1, Q3 2018)
Approx. 100	Meetings with institutional investors organized by different brokers
9	Analytical reports - brokerage houses coverage

Other:

- Presence at three international investor conferences
- Online broadcasts from conferences available to foreign investors and employees
- IR Newsletter – targeting approx. 500 email accounts

New head of Investor relations

In August 2018 Pfleiderer appointed a new head of IR in order to strengthen its communication with the investor community. The Director of Investor Relations, Mr. Bartek Godlewski, is an experienced professional who earlier acted as Head of Institutional Clients at DM BOŚ brokerage and Head of Equities at BZ WBK (now Santander) brokerage.

2021 strategy update

In September 2017, the management board of Pfleiderer Group S.A. presented the top-down "Diamond Strategy" for the company's long-term orientation. Ambitious initiatives and targets along the five dimensions Commercial, Operations, People, Corporate Culture and Shareholder Value were introduced to strengthen our competitiveness and accelerate further shareholder value growth.

In 2018, Pfleiderer teams detailed and further developed initiatives to achieve these goals in a bottom-up detailing of the strategy plan. At the heart of this strategy plan lies our new commitment to reach revenues of EUR 1.3B and EBITDA margin of over 16% by 2021. To capture the full potential of our strategy, we have now set up an implementation program that is currently being rolled-out across the organization. Over the coming years, Pfleiderer plans to implement at least 12 major initiatives, organized in three Workstreams (Commercial, Operations and Poland-specific), which should improve the Group's efficiency and support top line growth in the 2021 perspective. The updated strategy was presented during the Q3 financial results conference in mid-November 2018.

4.5. RECOMMENDATIONS

Last year nine research reports were published by seven reputable brokerage houses and foreign financial institutions.

TABLE 32: RECOMMENDATIONS

▲	5	Buy, Accumulate
	2	Hold, Neutral
▼	2	Sell, Reduce

TABLE 33: RECOMMENDATIONS FOR PFLEIDERER GROUP S.A. – SUMMARY

Maximum target price	47.90
Median target price	43.50
Minimum target price	27.00

TABLE 34: RECOMMENDATIONS FOR PFLEIDERER GROUP S.A. SHARES

Target price (PLN)	Recommendation	Share Price on the date of the report (PLN)	Institution	Date
33.90	Buy	29.00	Santander	22.02.2019
33.80	Hold	32.35	Noble Securities	19.12.2018
47.00	Buy	32.00	Trigon	07.12.2018
27.00	Reduce	30.90	BDM	20.11.2018
47.70	Buy	29.95	Noble Securities	14.11.2018
29.00	Sell	32.10	PKO BP	19.10.2018
n.a.	Neutral	36.45	DM mBank	28.09.2018
44.10	Buy	37.00	Santander	07.06.2018
47.90	Buy	37.50	BDM	27.03.2018
42.87	Accumulate	39.00	Erste	23.02.2018

TABLE 35: INSTITUTIONS ISSUING RECOMMENDATIONS FOR PFLEIDERER GROUP S.A. IN 2018

Institution	Analyst	Contact details
BDM	Krystian Brymora	+48 32 208 14 35 krystian.brymora@bdm.com.pl
Deutsche Bank	Tomasz Krukowski	+44 20 7541 2197 tomasz.krukowski@db.com
mBank	Jakub Szkopek	+48 22 438 24 03 Jakub.szkopek@mbank.pl
Noble Securities	Krzysztof Radojewski	+48 22 244 13 03 krzysztof.radojewski@noblesecurities.pl
PKO BP	Piotr Łopaciuk	+48 22 521 48 12 piotr.lopaciuk@pkobp.pl
Santander	Michał Sopiel	48 22 586 82 33 michal.sopiel@santander.pl
Trigon	Maciej Marcinowski	+48 22 433 83 75 maciej.marcinowski@trigon.pl
Wood&Co	Maciej Wardejn	+48 22 222 15 46 maciej.wardejn@wood.com

MANAGEMENT REPORT OF THE OPERATIONS OF THE PFLEIDERER GROUP S.A. AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2018

CORPORATE GOVERNANCE

5. CORPORATE GOVERNANCE

5.1. CORPORATE GOVERNANCE RULES USED IN THE COMPANY

Pfleiderer Group S.A. follows the rules provided for in the code of corporate governance "Best Practices of GPW Listed Companies 2016", which entered into force on 1 January 2017. The code is available on the Warsaw Stock Exchange website.

On 8 November 2017 the Company reported that in view of adoption of a resolution by the extraordinary general meeting of the Company, concerning the long-term incentive programme for certain members of the Company's Supervisory Board, of which the Company advised in the current report of 18 October 2017 (No. 51/2017) (the "Incentive Programme"), on 8 November 2017 the Company concluded agreements with Zbigniew Prokopowicz (chairman of the Company's Supervisory Board) and Michael F. Keppel (deputy chairman of the Company's Supervisory Board) determining the terms and conditions of the Incentive Programme. On 30 August 2018 the Company concluded with Michael F. Keppel (deputy chairman of the Company's Supervisory Board) the mutual agreement on termination of the agreement regarding the Incentive Programme.

As of the date of this Report the only member of the Supervisory Board participating in the Incentive Program is Zbigniew Prokopowicz (chairman of the Company's Supervisory Board). Under the terms and conditions of the Incentive Programme the Company has granted the above-mentioned member of the Supervisory Board options to acquire the existing shares in the Company's share capital on the terms as described in the current report of the Company of 20 September 2017 (No. 40/2017). In view of the above, at least while the Incentive Programme remains in force, the Company will not be complying with the VI.Z.3 principle of the Best Practice for GWP Listed Companies 2016 to the extent that such principle applies to the fact that the remuneration of members of the supervisory board of companies listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) should not be linked to such variable components of remuneration as options.

Furthermore the Company explains that neither the Company's shareholder structure nor shareholder expectations justify providing the technical infrastructure necessary for a General Meeting to proceed using electronic means of communication.

5.2. MAJOR SHAREHOLDERS

As of the date of this Report, the share capital of Pfleiderer Group S.A. is PLN 21 351 thousand and is divided into 64 701 007 shares of PLN 0.33 at par value each. The total number of voting rights resulting from all shares issued by the Company is 64 701 007.

TABLE 36: MAJOR SHAREHOLDERS OF PFLEIDERER GROUP AT 24 APRIL 2019

	Number of shares	% of equity	Number of votes an GM	Percentage of votes on GM
Strategic Value Partners LLC	19 183 149	29.65%	19 183 149	29.65%
Atlantik S.A.	12 474 561	19.28%	12 474 561	19.28%
Aviva OFE Aviva Santander	4 308 424	6.66%	4 308 424	6.66%
Treasury shares (*)	12 940 201	20.00%	12 940 201	20.00%
Other shareholders	15 794 672	24.41%	15 794 672	24.41%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

According to information from the last Extraordinary General Meeting on 7 February 2019

(*)In accordance with article 364 Paragraph 2 of the Commercial Companies Code the Company does not exercise shareholder rights attached to the treasury shares, except for the right to transfer the shares or perform the actions aiming at preserving shareholder rights.

Announced treasury shares repurchase programme

Date of purchase	Number of purchased shares	Total price incl. costs (thousand PLN)
12 October 2017	3 235 050	152 701
07 February 2018	2 150 883	80 867
27 February 2018	11 000	413
24 August 2018	7 543 268	302 406
TOTAL	**12 940 201**	**536 387**

On 12 October 2017 the Company bought back 3 235 050 treasury shares. The purchase of treasury shares was concluded based on an invitation to submit offers for the sale of shares in the Company announced by the Company on 20 September 2018. In addition the treasury shares were purchased in connection with the implementation of the treasury share buyback programme approved under a resolution of the Company's Annual General Meeting on 21 June 2017. The price for the treasury shares was PLN 47 per share. The total price for all shares was PLN 152 047 350. Costs related to the purchase amounted to PLN 654 thousand.

On 7 February 2018 the Company purchased 2 150 883 treasury shares. The basis for the purchase was an invitation to submit offers for the sale of shares in the Company announced by the Company on 18 January 2018. The purchase price for the treasury shares amounted to PLN 37.5 per one share. The total price for all of the purchased shares amounted to PLN 80 658 112.50.

On 27 February 2018 the Company purchased 11 000 treasury shares, with a nominal value of PLN 0.33 each. The purchase price for the treasury shares amounted to PLN 37.5 per one share. The total price for all of the purchased shares amounted to PLN 412 500.

Pursuant to the resolution of the Ordinary General Meeting of Shareholders of the Company dated 21 June 2017, the shares purchased under the programme may be: (i) oferred to persons entitled purchase shares under the Company's incentive programme (ii) redeemed; or (iii) otherwise disposed of by the Management Board of the Company, subject to a consent of the Supervisory Board, with a view to the needs resulting from the Company's business.

On 24 August 2018 the Company purchased 7 543 268 treasury shares. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 4 August 2018. The purchase price for the treasury shares amounted to PLN 40 per one share. The total price for all of the purchased shares amounted to PLN 301 730 720. The treasury shares were purchased in connection with the implementation of the treasury share repurchase programme approved under the resolution no. 24 of the Company's Annual General Meeting of the Shareholders dated 11 June 2018. Costs related to the purchase amounted to PLN 675 thousand.

Pursuant to the resolution of the Ordinary General Meeting of Shareholders of the Company dated 11 June 2018, the shares purchased under the programme may be: (i) redeemed; or (ii) otherwise disposed of by the Management Board of the Company, subject to a consent of the Supervisory Board, with a view to the needs resulting from the Company's business.

The total number of treasury shares purchased by the Company as at the date of publication of this report is 12 940 201. The total nominal value of all purchased treasury shares is PLN 4 270 266.33, representing approximately 20% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of approximately 20% of the votes at the general meeting representing approximately 20% of the overall number of votes, provided that the Company does not exercise the voting rights attached to the treasury shares.

5.3. NUMBER OF THE COMPANY'S SHARES HELD BY PERSONS IN MANAGEMENT AND SUPERVISORY BODIES

As at the date of this Report, the Management Board's members held the following number of Pfleiderer Group shares:

- President of the Management Board Tom K. Schäbinger – 16 750 shares.

The nominal value of each share is PLN 0.33.

Other Members of the Pfleiderer Group Management and Supervisory Board did not hold any shares in the Parent.

5.4. SHARES HELD BY PFLEIDERER GROUP S.A.

For detailed information on shareholdings, see note 15 to the annual standalone financial statements (Investments in subsidiaries).

Treasury shares are described in point 5.2

5.5. PRIMARY ATTRIBUTES OF THE INTERNAL CONTROL SYSTEM AND COMPLIANCE MANAGEMENT SYSTEMS IN REFERENCE TO PREPARING FINANCIAL STATEMENTS

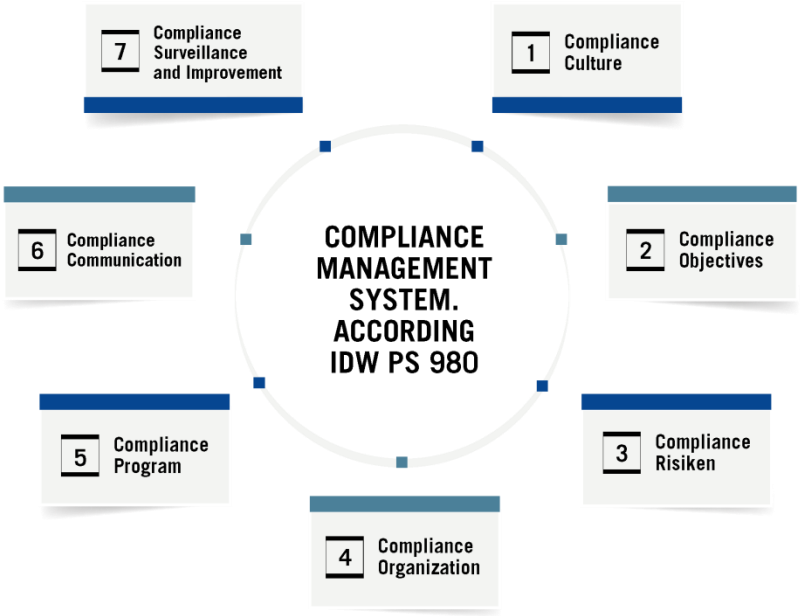
The internal control system is a process put into place by Pfleiderer's Management Board, management and other staff to provide a reasonable assurance that the standalone and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management, the internal control system and compliance are an integral part of the Group's Governance Risk and Compliance System. The Management Board approves the internal control system and the risk policy principles.

The goal of the Internal Control system at Pfleiderer is to establish systematically structured organisational measures and controls to ensure compliance with the guidelines and protection against damage that could be caused by its own staff or malicious third parties.

Furthermore, the Internal Control system and Risk Management System for financial reporting have two main objectives. Firstly, for Pfleiderer's financial reports to be reliable and present accurate information about the company's financial standing. Secondly, for Pfleiderer to comply with the applicable laws, regulations, International Financial Reporting Standards (IFRS) as adopted by EU and other requirements for listed companies.

Compliance is an integral part of operations. The corporate bodies, management and each individual employee of Pfleiderer Group are responsible in this respect and set an example for others. The compliance body has a governance and advisory function for the corporate bodies, management and the employees of Pfleiderer. The Pfleiderer Compliance Management System is based on auditing standard DWS (PS 989) and comprises seven basic elements:

FIGURE 19: BASIC ELEMENTS OF THE CMS BY IDW PS 980



Control environment

In accordance with Article 4a of the Accounting Act of 29 September 1994, the duties of Management Board and Supervisory Board's duties include ensuring that the financial statements and activity report meet the requirements prescribed by law. Therefore, both boards control whether the established principles for financial reporting, risk management and internal control are followed and that appropriate relations are maintained with Pfleiderer's auditors.

Pfleiderer's financial reporting process is integrated and serves internal and external reporting purposes. In order to ensure the application of uniform accounting principles, Pfleiderer adopted the IFRS-based Documentation of Accepted Accounting Policies, which is binding on Pfleiderer and Group companies. Amendments to IFRS are monitored on an ongoing basis, in order to update the Documentation of Accepted Accounting Policies and the scope of disclosures in the financial statements.

Risk assessment

When assessing the risk regarding financial reporting Pfleiderer aims to identify and evaluate the most significant risks affecting the Group's financial reporting, reporting segment and country levels, which include for example risks related to fraud, risk of loss or misuse of assets. Based on the risk assessment results, control indicators are set to ensure that the fundamental requirements placed on financial reporting are fulfilled. Information on development of essential risk areas, indicators, planned and executed activities to mitigate risks are communicated regularly to the Board.

Control activities

Pfleiderer introduced policies and procedures to help ensure that the directives regarding the preparation of financial statements are carried out and that necessary actions are taken to address risks to the achievement of the Group's objectives. Control activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, are established at all levels and in all functions of the Group. Control activities include also business and financial results analysis on a monthly basis. The Management Board reviews interim and annual reports and approves reports before publication.

Monitoring

In order to maintain an effective internal control system Pfleiderer has established information systems to produce reports containing operational, financial and compliance information. The reports include not only internally generated data but also all information that could have an influence on the business operations of Pfleiderer. Internal and external communication is open, transparent, accurate and timely.

5.6. COMPANY'S CORPORATE BODIES

5.6.1. GENERAL MEETING

The Company's General Meeting can act as an Ordinary or Extraordinary General Meeting. The Ordinary General Meeting shall be held within 6 months after the end of each business year. The Extraordinary General Meeting shall be convened by the Management Board upon its own initiative or upon a motion of shareholders representing at least 10% of share capital. The agenda of the General Meeting shall be determined by the Management Board. The Supervisory Board and shareholders representing at least 10% of the share capital may demand the insertion of particular matters on to the General Meeting's agenda.

Pursuant to Article 393 of the Commercial Companies Code, the General Meeting includes the following powers, without limitation:

- examination and approval of the management board's report on the company's activities and of financial statements for the preceding financial year, likewise for granting a vote of acceptance to members of company bodies confirming the discharge of their duties;
- taking decisions in respect of claims for redressing damage inflicted during the formation of the company or exercise of management or supervision;
- transfer or lease of the business or an organized part thereof and establishment of a limited right *in rem* thereon;
- acquisition and transfer of immovable property, perpetual usufruct, or share in immovable property, except where the company's articles of association provide otherwise;
- issue of convertible bonds or priority bonds and issue of subscription warrants referred to in Article 453 § 2 of the Commercial Companies Code;

- acquisition of treasury shares in the circumstances referred to in Article 362 § 1 point 2 of the Commercial Companies Code and authorization for their acquisition in the circumstances referred to in Article 362 § 1 point 8;
- conclusion of a contact referred to in Article 7 of the Commercial Companies Code.

Pursuant to Article 28 item 28.2. of the articles of association, General Meeting resolutions are adopted by a simple majority of votes, unless otherwise provided for by the CCC or the Articles of Association.

General Meeting resolutions shall be adopted by three-fourths majority in the following matters:

- amendment to the Articles of Association including issuance of new shares;
- issuance of bonds;
- transfer of the business;
- merger with another company;
- dissolution.

Pursuant to Article 28 item 28.4. of the articles of association, without prejudice to the relevant provisions of the Commercial Companies Code, a significant change of the scope of Company's business may take place without buying out the shares held by a shareholder who disapproves of such change, if the resolution is adopted with two-thirds majority votes in the presence of persons representing at least half of the share capital.

Resolutions to amend the articles of association that increase the obligations of shareholders or decrease the rights granted personally to particular shareholders shall require the consent of all the affected shareholders.

General Meetings take place in Warsaw or at the Company's registered office. The General Meeting shall be opened by the Supervisory Board Chairman or by some other Supervisory Board member and in case of their absence by the President of the Management Board or any shareholder present or represented at the General Meeting.

The General Meeting adopts bylaws. Pursuant to the General Meeting's bylaws voting can be conducted by electronic means of counting votes, including means based on computer systems. The General Meeting can appoint committees (motions, resolutions, ballot-counting committees and other committees) to streamline the General Meeting. The General Meeting can resign from appointing the ballot-counting committee if it votes by electronic means and if appointing a ballot-counting committee would be redundant due to a small number of shareholders in attendance. In such a case the General Meeting Chairman shall perform the duties of the ballot-counting committee.

5.6.2. SUPERVISORY BOARD

TABLE 37: THE COMPOSITION OF THE SUPERVISORY BOARD AS AT 31 DECEMBER 2018

Supervisory Board	
Zbigniew Prokopowicz	Chairman of the Supervisory Board
Michael F. Keppel	Vice-Chairman of the Supervisory Board
Jason R. Clarke	Vice-Chairman of the Supervisory Board
Florian Kawohl	Member of the Supervisory Board
Anthony O'Carroll	Member of the Supervisory Board
Krzysztof Sędzikowski	Member of the Supervisory Board
Jan Woźniak	Member of the Supervisory Board

The present term of the Supervisory Board began on 11 June 2018 and will expire on 11 June 2023.

The tenures of all the incumbent Supervisory Board members as at 31 December 2018 will expire at the latest on the date of holding the General Meeting approving the financial statements for the last full financial year when they are Supervisory Board members, i.e., on the day of adoption of the resolution to approve the financial statements for the financial year ended 31 December 2022. The tenure of a Supervisory Board member also expires in the event of death, resignation or of being recalled from the Supervisory Board. The tenure of Supervisory Board members appointed before the end of a given term will expire at the same time as of the remaining Supervisory Board members.

Changes in Supervisory Board

On 17 December 2018 the Company received the resignation letter from Mr. Jason Clarke regarding the resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the general

meeting of the shareholders of the Company of a new member of the supervisory board of the Company in his place. In case the appointment of a new member of the supervisory board of the Company would not take place before 14 February 2019, the resignation would be effective as of 14 February 2019.

On 31 January 2019 the Company received the resignation letter from Mr. Florian Kawohl regarding the resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the general meeting of the shareholders of the Company of a new member of the supervisory board of the Company in his place. In case the appointment of a new member of the supervisory board of the Company would not take place before 14 February 2019, the resignation would be effective as of 14 February 2019.

On 7 February 2019 the extraordinary general meeting of shareholders of the Company appointed to the Supervisory Board Mr. John Brantl and Mr. Julian von Martius.

On 20 March 2019 the Supervisory Board nominated Mr. John Brantl to the position of Vice-Chairman of the Supervisory Board.

Manner of operation and Supervisory Board powers

The Supervisory Board exercises on going supervision over all the areas of the Company's activity.

In accordance with the Articles of Association, the Supervisory Board is made up of five, seven or nine members. Supervisory Board members are appointed by the General Meeting, which also decides on the number of Supervisory Board members. The Supervisory Board appoints the Chairman from among its members and, if needed, one or two deputy chairmen and a secretary. Individual Supervisory Board members or the entire Supervisory Board may be recalled at any time before the end of the term of office.

Supervisory Board meetings are convened and chaired by the Supervisory Board Chairman, or, during his absence, by the Deputy Chairman or person authorized by the Chairman. Additionally, a Supervisory Board meeting can also be convened by a written motion submitted by any Supervisory Board member or by a written motion of the Management Board. The Supervisory Board meeting shall be convened within a week of its date of submission. The meeting shall take place within two weeks of being convened, provided that the person submitting the motion does not stipulate a later date. Additionally, the Management Board and each Supervisory Board member can apply to the Supervisory Board Chairman to add an additional item to the agenda. Supervisory Board meetings can also take place without being formally convened, provided that all Supervisory Board members consent thereto at the latest on the day of the Supervisory Board meeting and confirm this by letter or fax or sign the attendance record. Supervisory Board members can participate by conference call provided that each Supervisory Board member is able to hear all the other members. If required, the Supervisory Board may invite Management Board members or other persons to attend.

In principle, the Supervisory Board adopts resolutions by an absolute majority of validly cast votes. For Supervisory Board resolutions to be valid, all Supervisory Board members must be duly notified about a meeting and at least one-half of the Supervisory Board members must be present at the meeting. As a general rule, a resolution cannot be taken on a matter not included on the agenda, nor can the agenda be amended or supplemented during the meeting to which it relates unless all Supervisory Board members are present and no member objects. The Supervisory Board Chairman or a person he authorises may also call for a written ballot on a draft resolution submitted to the Supervisory Board members in writing. Such resolution submitted in writing is validly adopted provided that (i) more than half of the Supervisory Board members vote in favour; and (ii) all Supervisory Board members agree in writing to a written ballot. Signing the resolution by a Supervisory Board member shall be deemed to mean acceptance of its adoption in writing. A written ballot cannot be used in matters related to proposals for the distribution of profit or related to submitting to the General Meeting a written report on the results of the following actions: examining the annual financial reports, examining and giving opinions on the Management Board's reports; examining and approving annual business, financial and marketing plans. Votes at Supervisory Board meetings are cast in an open ballot, except for voting on the following matters: (i) appointing and recalling Management Board members; (ii) suspending Management Board members; and (iii) appointing and recalling the Supervisory Board Chairman, Deputy Chairman and secretary. The Chairman shall order voting by a secret ballot upon the request of at least one Supervisory Board member present at the meeting, except on matters excluded from secret ballot by Supervisory Board Bylaws. The Supervisory Board may also pass resolutions by circulation or using remote means of communication (subject to Article 388 § 4 of CCC).

The Supervisory Board performs its activities collectively; however, it can appoint particular members to perform specific supervisory activities unilaterally. If the Supervisory Board is elected in voting by separate groups, each group is entitled to delegate one of the elected members to exercise supervision on a continuous and unilateral basis. A Supervisory Board member delegated by a group of shareholders to exercise constant supervision should submit detailed reports to the Supervisory Board on the performance of such tasks.

In accordance with the Articles of the Association and the Supervisory Board Bylaws, the Supervisory Board powers include the following in particular: (i) examining the annual financial reports and ensuring their verification by auditors appointed by the Supervisory Board; (ii) examining and giving its opinion on the Management Board's reports; (iii) examining and approving the annual business, financial and marketing plans; (iv) submitting to the General Meeting a written report on the results of actions stipulated in items (i) to (iii) above; (v) giving its opinion on Management Board motions and presenting to the General Meeting proposals for the distribution of profit, including the amount assigned for dividend and proposals for the day of acquiring the right to dividend as well as the day of dividend payment, or the rules of covering losses; (vi) consenting to a transaction of sale or purchase of shares or other assets and for obtaining a cash loan if the value of the transaction exceeds 15% of the net asset value in the most recent balance sheet; (vii) appointing, suspending or recalling Management Board members; (viii) delegation of Supervisory Board members for a period not longer than three months, for temporary performance of the duties of Management Board members who are dismissed, resign or are unable to perform their duties for some other reason; (ix) consenting to establishing a branch office abroad upon a motion of the Management Board; (x) signing employment contracts with Management Board members and performing on behalf of the Company the rights resulting from employment contracts with Management Board members and signing other contracts with Management Board members; (xi) establishing the compensation of the Management Board members; (xii) adopting the Supervisory Board Bylaws; (xiii) granting opinions on the motions submitted by the Management Board to the General Meeting; (xiv) adopting, each year during the meeting to review the Company's financial statements, a resolution containing the Supervisory Board's evaluation of the Company's standing; (xv) appointing an entity authorized to audit financial statements, (xvi) approving cutbacks or closure of existing business areas if the revenue generated by the affected business were accountable for at least 5% of the Group's total revenue in the last full financial year; (xvi) approving the commencement of new areas of business if the anticipated effect of the new business is planned to account for more than 3% of the Group's total revenue in the next two years; and (xvii) approving out of budget investments in the Group if their individual value exceeds EUR 5 000 000.

Additionally, the Management Board should advise the Supervisory Board in advance of the following matters: (i) acquisition, disposal and reorganization of companies, shares in companies, companies' businesses and organized parts of companies' businesses, if the standalone market value – or failing this – the individual book value of these transactions exceeds an amount equal to EUR 1 000 000 (including related-party transactions); (ii) conclusion, amendment or termination of agreements by any company in the Group if the agreement's value exceeds 5% of the Group's total revenue in the last full financial year; (iii) changing the accounting policies of any of the Group's companies; (iv) any supervisory board or management board member's appointment to the Group's companies; (v) out of budget investments in the Group if their standalone value exceeds EUR 1 000 000, (vi) sale and disposal of assets (except for shares in companies) within the Group if their standalone value exceeds EUR 1 000 000; (vii) establishing a new or amendment of an existing pension system or scheme within the Group; (viii) granting loans, guarantees or any other similar actions creating potential liabilities to persons or entities which are not part of the Group in excess of EUR 500 000, except for transactions related to the Group's ordinary course of business; (ix) institution of legal proceedings or conclusion of court settlements with a value exceeding EUR 250 000; (x) conclusion, amendment or termination of agreements by any company in the Group, including but not limited to any agreement concerning financing, such as facility agreements, factoring agreements and issuance of bonds if the agreement's value exceeds EUR 5 000 000, except for the issuance and acquisition of bonds within the Group; (xi) any purchase, sale or transfer of real property or establishment or amendment of encumbrances on real property or rights equivalent to real property by any companies in the Group if the standalone value exceeds EUR 500 000; (xii) election and engagement by any company in the Group of any advisor on any disposal of assets if the advisor's fee is to exceed EUR 100 000; (xiii) conclusion of material amendment or termination of rental, leasing or leasehold contracts by any company in the Group foreseeing a term exceeding three years and a rental, lease or leasehold charge exceeding EUR 300 000 a year; (xiv) conclusion, amendment or termination of agreements by any company in the Group concerning the acquisition or sale of commercial intellectual property rights (patents, trademarks, etc.), confidential processes, operating secrets, know-how or other similar rights; conclusion, amendment or termination of license agreements entailing an annual license fee exceeding EUR 300 000; (xv) conclusion, amendment or termination by any company in the Group of an agreement that governs the distribution of dividends, management of subsidiaries or transfer of profit by subsidiaries either inside or outside the Group; and (xvi) conclusion, amendment or termination by any company in the Group of an agreement requiring notification to, or the consent of, the Antimonopoly Office. With respect to items (i)-(iii) above, the Management Board shall give the Supervisory Board at least four weeks' prior notice and with respect to items (iv)-(xvi), at least two weeks' prior notice. In addition, the Management Board will advise the Supervisory Board, at least one week in advance, of the following matters: (a) the intention to take on an employee in a position who reports directly or is directly accountable to the Management Board or particular members of the Management Board in accordance with the organizational system in force at the Company (Job Level 1); (b) the intention to enter into cooperation on the basis of a civil law agreement with

a natural person as a contractor to cooperate directly with the Management Board or particular members of the Management Board.

Every year, the Supervisory Board shall submit to the General Meeting a concise assessment of the Company's standing, sufficiently early as to enable the company's shareholders to acquaint themselves with it before the General Meeting.

Supervisory Board Committees

The following standing committees operate in the Parent Company's Supervisory Board:

a) Audit Committee
b) Nomination and Remuneration Committee
c) Transformation Committee

The committees are appointed by the Supervisory Board from among its members. Each committee selects, a chairman and a vice-chairman from among its members.

The Audit Committee and the Nomination and Remuneration Committee are composed of at least three members. With respect to the Nomination and Remuneration Committee at least one member of the Committee should be an independent Supervisory Board member. With respect to the Audit Committee at least 2 members of the Committee, including the Chairman should be independent members.

The Transformation Committee is composed of at least two members, at least one of them should be an independent Supervisory Board member.

Each committee can appoint experts from outside the Supervisory Board to assist in the performance of its tasks. Committee sessions are organized at the committee chairman's own initiative. Committee resolutions are passed by an absolute majority of votes. In the event of a tie vote, the chairman's vote will prevail. Committees can also pass resolutions in writing or use remote means of communication. Resolutions are passed in the presence of at least one half of the members, provided that all members are duly notified of a session. Minutes are drawn up of committee sessions. The minutes should be signed by all Supervisory Board members present. A copy of the minutes should be sent to all Supervisory Board members.

Audit Committee

The Audit Committee is in charge of the following: (i) monitoring financial reporting processes, the correctness of financial information presented by the Company, the effectiveness of internal control, internal audit and risk management systems, (ii) issuing assessments for the Supervisory Board concerning the selection, appointment, reappointment and dismissal of a chartered auditor and the conditions of their appointment, (iii) monitoring the independence and objectivity of the chartered auditor; (iv) controlling the type and scope of services exceeding audit services, but commissioned to the chartered auditor, (v) reviewing the effectiveness of the external audit process and monitoring the implementation of guidelines specified by external chartered auditors by Management Board members and employees, and (iv) examining the causes for resignation from the provision of services by a chartered auditor.

As at 31 December 2018, the composition of the Audit Committee of the Supervisory Board was as follows:

1. Krzysztof Sędzikowski – Chairman
2. Michael F. Keppel – Deputy Chairman
3. Jan Woźniak – Member

Nomination and Remuneration Committee

The purpose of the Nomination and Remuneration Committee is to monitor changes in headcount and employee turnover and survey the employee satisfaction level. The Nomination and Remuneration Committee is also in charge of supervising the Company's payroll policy, including monitoring the employee compensation and bonus system. Furthermore, the committee oversees other issues related to human resources belonging to the powers of the Supervisory Board or the committee, pursuant to the internal regulations and effective laws.

The Nomination and Remuneration Committee is obligated to draw up an annual report regarding its activity as of the end of each financial year. The report should be presented to the Supervisory Board in a term allowing it to be included in a report on the activity of the Supervisory Board.

As at 31 December 2018, the composition of the Nomination and Compensation Committee of the Supervisory Board was as follows:

1. Zbigniew Prokopowicz – Chairman
2. Michael F. Keppel – Deputy Chairman

3. Anthony O'Carroll - Member
4. Jan Woźniak - Member

Transformation Committee

On 2 March 2017, the Supervisory Board resolved to establish a Transformation Committee in the Company's Supervisory Board.

The aim of the Transformation Committee is to support the implementation of the 'One Pfleiderer' Initiative. The role of the Committee is to gather all necessary information and understanding on the company's current operations and future plans; this intelligence is supposed to assist the Supervisory Board to take relevant decisions on proposals submitted by the Management Board as well as to approve budget, midterm business plans, M&A projects and any exceptional capital expenditure. The Committee focuses also on mutual relations between the Company's corporate bodies, its shareholders and other associated stakeholders, including among others its employees.

The tasks of the Transformation Committee include in particular: (i) recommending to the Supervisory Board decisions related to the Group's transformation projects, strategic initiatives, commitments as well as approval of target directions, budgets and midterm business plans; (ii) ongoing revision of the group's strategy, corporate documents (including among others the articles of association and bylaws) and targets in transformation of the group and recommend to the Supervisory Board for debate and approval; (iii) review trends and issues of relevance for transformation of the group to allow it to act quickly with new concepts and solutions and thereby stay competitive; (iv) review the group's transformation commitments, monitor achievement against targets and report to the Supervisory Board when relevant deviations may occur; (v) provide guidance on the overall transformation process for the group to achieve the transformation commitments; (vi) ensure that appropriate programs, processes and internal task forces are in place to drive transformation in the group; (vii) monitor and report to the Supervisory Board on performance of the approved transformation mechanism and provide guidance on ways to improve or enhance performance.

As at 31 December 2018, the composition of the Transformation Committee was as follows:

1. Zbigniew Prokopowicz – Chairman
2. Anthony O´Caroll - Member

Principles of determining the compensation of Supervisory Board members

In accordance with the Articles of Association, the compensation of the Supervisory Board members is established by the General Meeting.

As at 31 December 2018, resolution No. 12 of the Ordinary General Meeting dated 29 June 2016 regarding the amendment of resolution No. 6 of the Extraordinary General Meeting of Pfleiderer Grajewo S.A. dated 19 February 2016 on the determination of the rules on compensation of the Company's Supervisory Board members remains in force.

Pursuant to the above resolution, Supervisory Board members are entitled to fixed monthly compensation for performing the duties of a Supervisory Board member and a Supervisory Board committee member, as well as to additional compensation for participation in Supervisory Board and committee meetings.

The fixed monthly gross compensation for Supervisory Board members for being a Supervisory Board member is as follows: (I) PLN 38 750 for the Chairman; (II) PLN 10 000 for the Deputy Chairman; (III) PLN 6 667 for every other member.

The fixed monthly gross compensation for Supervisory Board members for being a committee member is as follows: (I) PLN 10 000 for a committee chairman; (II) PLN 3 500 for a committee deputy chairman; (III) PLN 2 667 for other committee members.

The additional gross compensation for Supervisory Board members for participation in Supervisory Board and committee meetings is set as follows: (I) PLN 9 500 per each meeting – for the Supervisory Board Chairman and a committee chairman; (II) PLN 7 000 – for the Supervisory Board Deputy Chairman and committee deputy chairmen and (III) PLN 6 000 – for all other Supervisory Board and committee members.

Supervisory Board members' compensation is payable in arrears by the third business day of each consecutive month for the preceding calendar month and is determined on the basis of the meetings held in the preceding calendar month in which a Supervisory Board member participates.

Notwithstanding the payments of compensation described above, the Company reimburses Supervisory Board members for all the costs they incur that are directly related to participation in the activities of the Supervisory Board or any of its committees, in particular travelling and lodging expenses.

5.6.3. MANAGEMENT BOARD

As of 31 December 2018 the Management Board consists of Thomas Schäbinger (President and CEO), Dirk Hardow (COO), and Dr. Nico Reiner (CFO).

TABLE 38: THE COMPOSITION OF THE PFLEIDERER GROUP S.A. MANAGEMENT BOARD AS AT 31 DECEMBER 2018

TOM K. SCHÄBINGER

PRESIDENT OF THE MANAGEMENT BOARD

Mr. Tom K. Schäbinger (born in 1962) is a graduate of the Vienna University of Economies & Business (in 1989 he graduated in Studies of Business Administration) and Secondary School for Mechanical Engineering in St. Pölten (in 1982 he graduated with distinction as Engineer (Ingenieur)). Mr. Tom K. Schäbinger has been working as CEO for Bundy Refrigeration Group (cooling technology provider) since 2015 and has been managing partner of TS TRUST GmbH (a capital investment company) since 2014. Between 1998 and 2014 he held several positions in Mondi Europe and International (formerly known as Frantschach – a packaging and paper group with global operations), including several positions as Chief Executive Officer. Previously, Mr. Tom K. Schäbinger worked in various management positions including at Unilever and at Beiersdorf.

DR. NICO REINER

MEMBER OF THE MANAGEMENT BOARD

Dr. Nico Reiner (born in 1969) graduated business administration at the University Regensburg, Germany. He obtained PhD title at the HHL – Leipzig Graduate School of Management. Since 2014 Dr. Reiner has been working as the CFO of AL-KO Kober SE, Germany, a globally active company specialized in vehicle technology, garden technology and air technology. Dr. Reiner has been holding a position of Member of Management Board, CFO of holding company of AL-KO Kober Group. In a period 2005 – 2014 Dr. Reiner was working as the CFO, Member of the Executive Board of Schueco International KG, a worldwide leading supplier of building envelopes, active in the market of windows, doors and facades. Earlier Dr. Reiner was working on managerial positions for Droege & Comp. GmbH, International Management Consultancy.

DIRK HARDOW

MEMBER OF THE MANAGEMENT BOARD

Mr. Dirk Hardow (born in 1965) is a graduate of the Technical Univeristy of Hamburg, where in 1993 he graduated in Industrial Engineering & Management ("Hochschulübergreifender Studiengang Wirtschaftsingenieur"). Since 2011 Mr. Dirk Hardow was associated with US corporation Owens – Illinois Inc. Within the Owens – Illinois Inc structures he was i.a. the Vice President of European Operations (August 2011 – May 2015) and since October 2013 he was the Vice – Chairman of the Board of Vetrerie Meridionali, a glass manufacturing company. Furthermore, since June 2015 Mr. Dirk Hardow was the General Manager for South East Europe, where he was responsible for the operations of 11 factories in Italy and Hungary. From October 2011 to April 2013 he was a Member of the Board of Directors of Maltha Groep BV, a glass recycling company. Previously, Mr. Dirk Hardow worked on the management positions i.a. at Cremer-Group, Rohm and Hass Company as well as H.B. Fuller Company.

Changes in the Management Board

On 27 February 2018 Mr. Richard Mayer submitted the resignation from the Management Board. The resignation of Mr. Richard Mayer took effect from 31 March 2018. The same day the Supervisory Board of the Company decided to appoint Dr. Nico Reiner to the Management Board of the Company as the Member of the Management Board (Chief Financial Officer). The appointment of Dr. Nico Reiner took effect from 1 April 2018.

On 17 December 2018 Mr. Ivo Schintz submitted a resignation from the Management Board of the Company.

Events after the balance sheet date

On 20 March 2019 Mr. Dirk Hardow submitted a resignation from the Management Board of the Company. The resignation takes effect on 31 March 2019.

On the same day the Supervisory Board of the Company decided to appoint to the Management Board: Dr. Frank Herrmann as Chief Operating Officer and Mr. Stefan Zinn as Chief Commercial Officer. The above appointments take effect from 1 May 2019.

Long term incentive programme

On 20 September 2017 the Supervisory Board adopted a resolution establishing the terms of the long-term incentive programme for selected Management Board members ("Management Board LTIP").

On 18 October 2017 the Extraordinary General Meeting adopted a resolution establishing the terms of the long-term incentive programme for selected Supervisory Board members in the form determined by the Supervisory Board ("Supervisory Board LTIP" and together with the Management Board LTIP, the "LTIP").

According to the terms of the LTIP, the Company will grant selected Management Board and Supervisory Board members ("Managers") an option to acquire existing shares in the Company's share capital ("Call Option Shares") at the exercise price per share multiplied by the number of Call Option Shares to which each Manager is entitled ("Call Option"). As a rule, the Managers will be entitled to receive the Call Option Shares if they continue to be members of the Company's respective corporate body or their appointment thereto expires pursuant to certain conditions, including, in particular: (i) death; (ii) disability due to which a Manager is unable to perform his duties as a member thereof; or (iii) the elapse of the term for which the respective Manager is appointed as a member thereof and not being elected to a subsequent term of office for reasons other than for cause or occurrence of a material breach of obligations; or (iv) dismissal from the respective corporate body for reasons other than for cause or occurrence of a material breach of obligations.

The Call Option will be vested in six tranches. Each vested tranche will entitle each Manager to acquire, respectively, 5%, 5%, 7.5%, 10%, 22.5% and 50% (each defined as a "Tranche") of the overall number of the Call Option Shares to which each Manager is entitled if with respect to a given Tranche the price of the Company's shares reaches, respectively, PLN 40, PLN 47, PLN 55, PLN 63, PLN 70 and PLN 80 (the "Tested Share Price"). In the event that, during the term of 5 (five) consecutive years from the date of the adoption of the resolution regarding the Supervisory Board LTIP, the Tested Share Price for any of the respective Tranche has not been met and Call Option Shares related to such Tranche are not vested, the Manager shall irrevocably lose the right to acquire such Call Option Shares without the right to any compensation. The Tested Share Price constitutes: (i) the arithmetic average of the market price of the shares established on the basis of the daily volume-weighted average prices at the end of each period of 70 (seventy) consecutive trading days on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) through the whole term of the LTIP starting from 1 June 2017 (the "Share Price Test Period"), plus the sum of all dividends paid or declared to be paid by the Company in the period from the date of the adoption of the resolution regarding the Supervisory Board LTIP until respective Share Price Test Period divided by all of the shares in the Company's share capital; or (ii) the price received by any of the Company shareholders holding, individually or in aggregate in case of entities with respect to which their shareholding is aggregated pursuant to applicable securities regulations as at the date of the adoption of the resolution regarding the Supervisory Board LTIP, at least 10% of the shares in the Company's share capital and the corresponding number of votes at the company's general meeting ("Significant Shareholders") as a result of the direct or indirect transfer by the Significant Shareholders, jointly, of such number of the shares which would result in decreasing their share in the overall number of votes at the general meeting below 10%, except in the event that one Significant Shareholder sells its shares to the other Significant Shareholder(s).

Each Manager will have the right to exercise each Tranche and acquire the respective number of the Call Option Shares within 3 (three) years from the date such Manager is informed by the Company that the Tested Share Price has been reached with respect to a given Tranche. The Company, at its sole discretion, may elect not to deliver to the Manager the Call Option Shares subject to the Call Option, but instead to satisfy its obligation with cash. As a rule, the Call Option Shares acquired by a Manager will be subject to lock-up for a term of 5 (five) consecutive years from the date of execution by the Manager of the respective agreement with the Company regarding the LTIP.

As of the date of signing this Report, due to the changes in the Management Board, the members of the Management Board are in aggregate entitled to receive 1 519 560 Call Option Shares for the exercise price per share of PLN 40. As of the date of signing this Report only one member of the Supervisory Board participates in the Supervisory Board LTIP. He is entitled to receive 283 067 Call Option Shares for the exercise price per share of PLN 30.

Manner of the Management Board's functioning and Management Board powers

The Management Board represents the Company in contacts with third parties and handles all the Company's affairs.

The Management Board consists of at least two members. The number of Management Board members is set by the Supervisory Board. Pursuant to the Articles of Association, the Supervisory Board appoints the President of Management Board and, upon a motion of the President of Management Board, the remaining Management Board members. The President of the Management Board, as well as each of the individual members of the Management Board or the entire Management Board may be recalled at any time by the Supervisory Board, which shall not deprive them of claims arising from their employment contracts.

The Management Board passes its resolutions at meetings. Pursuant to the Management Board Bylaws, Management Board meetings are convened at least once a month. Management Board meetings are convened and chaired by the President of the Management Board or, during his absence, by a Management Board member he authorises. The Management Board meeting can also be convened upon a written motion of at least two members of the Management Board or commercial proxies or upon a written motion of the Supervisory Board. The meeting shall be convened within 7 days of the day of the submission of the motion. Management Board meetings are convened by written invitation containing an agenda and, if required, materials relating to the agenda, delivered to the remaining members of the Management Board three working days before the planned date of the meeting. Management Board meetings can take place without being formally convened provided that all Management Board members agree to the meeting and the proposed agenda. Management Board members and persons invited to participate in a Management Board meeting can take part by conference call provided that each person attending the meeting is able to hear all the other persons.

Management Board resolutions are passed by a simple majority of votes cast, provided that at least half of the members of the Management Board are present at the meeting. Resolutions can be adopted only on matters on the agenda, unless all Management Board members agree to vote on a matter not included on the agenda. Minutes of the Management Board meeting are taken and contain the date and place of the meeting, the names of the persons present, the agenda, the text of the adopted resolutions, as well as dissenting opinions voiced by Management Board members. The President of the Management Board or a member of the Management Board authorized by the President of the Management Board can order a written ballot on a draft resolution submitted in writing. Such resolution submitted in writing is validly adopted provided that (i) more than half of the Management Board members vote in favour of the resolution; and (ii) all Management Board members agree in writing to a written ballot. Signing the resolution by a Management Board member shall be deemed to mean acceptance of its adoption in writing.

The joint action of two Management Board members or of one Management Board member and a commercial proxy is required to make declarations of will and sign representations on behalf of the Company.

In accordance with the Management Board Bylaws, decisions outside the ordinary course of business require a resolution of the Management Board.

Additionally, in accordance with the Management Board Bylaws each Management Board member has the right and duty to run the Company's affairs within the scope of the ordinary course of business. The scope of powers and activities of each of Management Board member in the ordinary course of business is presented in the Company's organizational regulations.

Appointment and removal of the management

Pursuant to the Parent Company's Articles of Association, Management Board members are appointed and recalled by the Parent Company's Supervisory Board. The Articles of Association and resolutions of the Parent Company's General Meeting do not provide for any special powers for Management Board members with respect to making decisions on the issue or buyback of shares.

Parent Company's management bodies

The Parent Company's Management Board must consist of at least two members. Management Board members are appointed for a joint five-year term of office. The Supervisory Board appoints the President of the Management Board and, upon his/her request, the other Management Board members. The Management Board exercises all powers in the scope of managing the Parent Company's operations with the exception of powers reserved for the Parent Company's other governing bodies under law or the Parent Company's Articles of Association. The proceedings of the Management Board and the matters assigned to individual members of the Management Board are defined in detail in the Rules of Procedure of the Management Board, adopted by the Parent Company's Management Board and approved by the Supervisory Board.

The General Meeting appoints the Supervisory Board meetings. The Supervisory Board must consist of five, seven or nine members. Supervisory Board members are appointed for a joint five-year term of office. The Supervisory Board supervises the Parent Company's activities and operations. The Supervisory Board's powers are defined in the Articles of Associations and in law, including the Commercial Companies Code. The Supervisory Board adopts its rules of procedure, which define operations of the Supervisory Board in detail.

5.7. COMPENSATION REPORT

5.7.1. MANAGEMENT BOARD

As of 31 December 2018 the Management Board consisted of Tom K. Schäbinger (President and CEO), Dirk Hardow (COO), and Dr. Nico Reiner (CFO). The executive compensation of the Company's Management Board as well as the Company's Supervisory Board, including bonuses, paid and payable, for the reporting period:

TABLE 39: EXECUTIVE COMPENSATION OF THE COMPANY'S MANAGEMENT BOARD INCLUDING BONUSES

'000 EUR	2018	2017
Thomas Schäbinger (from 1 June 2017)	1 113	487
Dirk Hardow (from 1 November 2016)	610	443
Dr. Nico Reiner (from 1 April 2018)	384	0
Richard Mayer (till 31 March 2018)	589	653
Ivo Schintz (from 1 August 2017 till 17 December 2018)	797	129
Rafał Karcz (till 30 September 2017)	0	161
Wojciech Gątkiewicz (till 1 August 2017)	263	197
Michael Wolff (till 1 June 2017)	0	845
TOTAL	3 756	2 915

The executive compensation includes all payments from all Group companies to the Management Board. No member of the Company's Management Board had loan-related debt towards the Group.

In addition, Pfleiderer Group S.A Management Board members received the following compensation for serving in the management board of Pfleiderer Benelux B.V.:

'000 EUR	2018	2017
Ivo Schintz	334	38
TOTAL	334	38

As at the date of this Report, Management Board members held the following number of Pfleiderer Group shares:

- President of the Management Board Tom K. Schäbinger – 16 750 shares.

The nominal value of each share is PLN 0.33.

Other Members of the Pfleiderer Group Management and Supervisory Board did not hold any shares in the Parent Company.

As of 31 December 2018 Management Board members have the following contracts:

- Mr Tom K. Schäbinger – contract with PCF GmbH concluded for 3 years beginning from 1 June 2017 until 31 May 2020; in the event of a termination before this date he is entitled to a maximum of two years' basic salary limited to the remaining term of his contract. The contract provides a non-compete covenant of Mr Schäbinger for a period of 12 months after expiration of the contract in exchange for a compensation payable by PCF GmbH, amounting to 50% of the average remuneration received by Mr Schäbinger in a period of 12 months preceding the expiration date of the contract. PCF GmbH may waive the post-contractual non-compete covenant subject to 3-month notice.
- Mr Dirk Hardow – contract with PCF GmbH concluded for 3 years beginning from 1 November 2016 until 31 October 2019; in the event of an earlier termination he is entitled to a maximum of two years' basic salary limited to the remaining term of his contract. The contract provides a non-compete covenant of Mr Hardow for a period of 12 months after expiration of the contract in exchange for a compensation payable by PCF GmbH, amounting to 50% of the average remuneration received by Mr Hardow in a period of 12 months preceding the expiration date of the contract. PCF GmbH may waive the post-contractual non-compete covenant subject to 3-month notice.
- Dr. Nico Reiner – contract with PCF GmbH concluded for 3 years beginning from 1 April 2018 until 31 March 2021; in the event of a termination before this date he is entitled to a maximum of two years' basic salary limited to the remaining term of his contract. The contract provides a non-compete covenant of Dr. Reiner for a period of 12

months after expiration of the contract in exchange for a compensation payable by PCF GmbH, amounting to 50% of the average remuneration received by Dr. Reiner in a period of 12 months preceding the expiration date of the contract. PCF GmbH may waive the post-contractual non-compete covenant subject to 3-month notice.

On 17 December 2018 Pfleiderer Group S.A. executed with Mr. Ivo Schintz the termination agreement, which terminates the contract between the parties with effect as of 31 December 2019. According to the termination agreement, Mr. Schintz is entitled to a severance payment of EUR 95 000, which also covers all claims to a bonus for the fiscal year 2019.

On 20 March 2019 PCF GmbH, a subsidiary of the Company, executed with Mr. Dirk Hardow a settlement agreement regarding a termination of the service contract of Mr. Hardow. The service contract is terminated with effect as of 30 April 2019. With respect to the early termination of the service contract, PCF GmbH will pay a severance payment to Mr. Hardow in the amount of EUR 180 000 gross.

5.7.2. SUPERVISORY BOARD

The compensation of Pfleiderer Group S.A. Supervisory Board members in the reporting period was as follows:

TABLE 40: COMPENSATION OF PFLEIDERER GROUP S.A. SUPERVISORY BOARD MEMBERS IN THE REPORTING PERIOD

000 EUR	31 Dec. 2018	31 Dec. 2017
Zbigniew Prokopowicz	339	315
Michael F. Keppel	99	94
Jason R. Clarke	0	0
Florian Kawohl (from 18 October 2017)	0	0
Anthony O'Carroll (from 18 October 2017)	0	0
Krzysztof Sędzikowski	84	79
Jan Woźniak	79	59
Tod Kersten (till 18 October 2017)	0	29
Stefan Wegener (till 18 October 2017)	0	86
TOTAL	601	662

As at the end of each financial year, Pfleiderer Group S.A. Supervisory Board members had no outstanding debt under loans from the Group.

Pfleiderer Group S.A. Supervisory Board members did not hold any shares in the Company at the end of 2018.

The present term of the Supervisory Board began on 11 June 2018 and will expire on 28 June 2023.

The tenures of all the Supervisory Board members incumbent as at 30 September 2018 will expire at the latest on the date of holding the General Meeting which will approve the financial statements for the last full fiscal year during which they held the positions of Supervisory Board members, i.e., on the day of adoption of the resolution on the approval of financial statements for the fiscal year ended 31 December 2022. The tenure of a Supervisory Board member also expires in the event of death, resignation or of being recalled from the Supervisory Board. The tenure of a Supervisory Board members appointed before the end of the given term will expire simultaneously with the tenures of the remaining Supervisory Board members.

Changes in Supervisory Board

Ordinary General Meeting of Shareholders on 11 June 2018 appointed to the Supervisory Board for the new term of office the following persons: Zbigniew Prokopowicz, Michael F. Keppel, Jason R. Clarke, Florian Kawohl, Anthony O'Carroll, Krzysztof Sedzikowski and Jan Woźniak. On 11 June 2018 the Supervisory Board appointed Zbigniew Prokopowicz the Chairman of the Supervisory Board and Michael F. Keppel and Jason R. Clarke the Deputies Chairman of the Supervisory Board.

On 17 December 2018 Mr. Jason R. Clarke submitted his resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the general meeting of shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.

Events after the balance sheet date

On 31 January 2019 Mr. Florian Kawohl submitted his resignations from the position of the member of the Company's Supervisory Board with effect as of the date of the appointment by the general meeting of shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.

The above resignations became effective on 7 February 2019 i.e. on the date of appointment by the General Meeting of Shareholders new members of the Supervisory Board in place of the members who submitted the resignations. On 7 February 2019 the Extraordinary General Meeting of Shareholders of the Company appointed to the Supervisory Board Mr. John Brantl and Mr. Julian von Martius.

On 20 March 2019 the Supervisory Board nominated Mr. John Brantl to the position of Vice-Chairman of the Supervisory Board.

5.8. HOLDERS OF SECURITIES GIVING SPECIAL RIGHTS OF CONTROL AND DESCRIPTION OF THESE RIGHTS

Shares in the Parent Company

The Parent Company has not issued any securities conferring special powers of control. In addition, there are no limitations on the exercise of voting rights attached to the shares issued by the Parent Company. Also, there are no rights related to the securities issued by the Parent Company which would be separate from the ownership of the securities.

Neither the Parent Company's Articles of Association, nor its other internal regulations provide for any restrictions on the transferability of the Parent Company's shares. Therefore, the transfer of ownership of the Parent Company's shares is subject only to the limitations imposed by the applicable laws and stock-exchange regulations.

5.9. RESTRICTIONS REGARDING THE EXERCISE OF VOTING RIGHTS

Voting rights attached to the Company's shares are defined in particular by the Commercial Companies Code and the Company's Articles of Association.

Each share carries the right to one vote at the General Meeting (Article 411 § 1 of the Commercial Companies Code).

Pursuant to Article 420 § 1 of the Commercial Companies Code, voting at the General Meeting is done by open ballot. A secret ballot is used for elections and on motions to dismiss members of Company's corporate bodies or liquidators, or on holding them accountable for their actions, as well as with respect to personal matters. A secret ballot takes place at the request of at least one shareholder present or represented at the General Meeting. (Article 420 § 2 of the Commercial Companies Code).

Pursuant to Article 28 item 28.2. of the Articles of Association, General Meeting resolutions are adopted by a simple majority of votes, unless otherwise provided for by the Commercial Companies Code or the Articles of Association.

General Meeting resolutions are adopted by a three-fourths majority in the following matters:

- amendment to the Articles of Association including issuance of new shares;
- issuance of bonds;
- transfer of the Company's business;
- merger with another company;
- dissolving the Company.

Pursuant to Article 28 item 28.4. of the Articles of Association, without prejudice to the relevant provisions of the Commercial Companies Code, a significant change in the scope of the Company's business may take place without buying out the shares held by a shareholder who disapproves of such change if the resolution is adopted with a two-thirds majority in the presence of persons representing at least half of the share capital.

5.10. RESTRICTIONS ON THE TRANSFER OF OWNERSHIP TITLE TO SECURITIES

Pursuant to Article 337 of the CCC, shareholders may dispose of their shares. Disposal of shares includes their transfer (transfer of ownership) and other forms of disposal. The Company's Articles of Association do not provide for any share disposal restrictions.

5.11. RULES FOR AMENDING THE COMPANY'S ARTICLES OF ASSOCIATION

Amendments to the Parent Company's Articles of Association

The Parent Company's Articles of Association are amended in line with the procedure specified in the Commercial Companies Code. No special provisions with respect to this practice are set forth in the Parent Company's Articles of Association.

5.12. DIVERSITY MANAGEMENT

Pfleiderer Group recognises the potential of employees irrespective of their age, gender, ethnicity, disability, beliefs, religion, sexual orientation, family and socioeconomic status or other aspects that distinguish people. All are treated equally in the approach to the scope of entrusted duties, promotions and remuneration system, assuming that the substantive knowledge and usefulness in a given position are comparable. In Pfleiderer, one recognises personal strengths of working in an international and age-diverse environment. The Company uses and promotes the above differences, keeping in mind the free flow of know-how which it uses to strengthen teams, contributing to the strategic goals of the capital group and working on new innovative solutions in the range of products offered. Pfleiderer strives to create a work environment in which every employee, regardless of their physical or psychological condition, feels comfortable, is respected and appreciated, and their potential is fully utilised.

The official document "Diversity policy within the capital group of Pfleiderer Group S.A." was approved by the Management Board on 5 March 2018.

The Company also applies a broadly understood diversity policy, to members of management bodies and in relation to key managers. It relates in particular to the profile of education, age and professional experience. Key management positions within the Group are taken by both women and men. The aim of the diversity policy is to ensure that the Company is run by highly qualified managers with diverse experience useful for a given position.

6. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

CHANGES IN SUPERVISORY BOARD

On 31 January 2019 Mr. Florian Kawohl submitted his resignation from the position of the member of the Company's Supervisory Board with effect as of the date of the appointment by the general meeting of shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.
The above resignation became effective on 7 February 2019 i.e. on the date of appointment by the General Meeting of Shareholders new members of the Supervisory Board in place of the members who submitted the resignations. On 7 February 2019 the Extraordinary General Meeting of Shareholders of the Company appointed to the Supervisory Board Mr. John Brantl and Mr. Julian von Martius.

CHANGES IN MANAGEMENT BOARD

On 20 March 2019 Mr. Dirk Hardow submitted a resignation from the Management Board of the Company. The resignation takes effect on 31 March 2019.

On the same day the Supervisory Board of the Company decided to appoint to the Management Board: Dr. Frank Herrmann as Chief Operating Officer and Mr. Stefan Zinn as Chief Commercial Officer. The above appointments take effect from 1 May 2019.

CONCLUSION OF SIGNIFICANT AGREEMENT

On 11 April 2019, Pfleiderer Group companies (Pfleiderer Polska Sp.z o.o. – as Coordinator and Participants: Pfleiderer Group S.A., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Silekol Sp. z o.o., Pfleiderer Grajewo sp. z o.o., Jura Polska sp. z o.o.) concluded the Agreement with Bank Millennium S.A. on the cash management structure for the group of accounts and the annex to the ancillary agreement of 27 June 2017. Under the agreement on the cash management structure for the group of accounts, the Bank will perform settlements of one structure in PLN and one in EUR. Conclusion of the Annex to the ancillary agreement of 27 June 2017 makes available part of the Revolving Facility 2 in the form of an overdraft up to PLN 80 million to the Coordinator and through the structure to all Participants.

The collateral for the repayment of the participants' mutual obligations is guaranteed up to PLN 80 million.

7. NON-FINANCIAL STATEMENT

In performing the obligation specified in art. 49b of the Accounting Act of September 29, 1994 (Journal of Laws of 2019 item 351) and in accordance with the requirements specified in paragraphs 2-8 of the cited article, the Company prepared a separate report on non-financial information based on its own developed methodology and Guidelines Global Reporting Initiative GRI STANDARDS / level core /.

This report will be published in the form of a separate document (combining the annual report of the Company and the Pfleiderer Group) on the website www.pfleiderer.com on the day of publication of the Annual Report of the Pfleiderer Group for 2018.

8. MANAGEMENT BOARD REPRESENTATION

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated 29 March 2018 (consolidated text: Journal of Laws of 2018, item 757), the Management Board of Pfleiderer Group S.A. (Parent Company) represents that to the best of its knowledge the annual consolidated financial statements for the year ended 31 December 2018 and the comparative data have been prepared in compliance with the applicable accounting policies and give a fair and clear view of Pfleiderer Group S.A. Group's assets and financial results, and that the Management Board Report on Pfleiderer Group S.A. Group's operations gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

Management Board of Pfleiderer Group S.A. **Wrocław, 24 April 2019**

Thomas Schäbinger
President of the Management Board

Dr. Nico Reiner
Member of the Management Board,
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the General Shareholders' Meeting and the Supervisory Board of Pfleiderer Group S.A.

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of Pfleiderer Group S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (the "financial statements").

In our opinion, the accompanying financial statements:

- give a true and fair view of the economic and financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards ("IFRSs"), as endorsed by the European Union, and the adopted accounting policies;
- comply, as regards their form and content, with the applicable laws and the articles of association of the Company;
- have been prepared based on properly kept accounting records, in accordance with Section 2 of the Accounting Act of 29 September 1994 (the "Accounting Act", Journal of Laws of 2019, item 351).

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on April 9, 2019.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") in a version adopted by the National Council of Statutory Auditors as the Polish Standards on Auditing ("PSAs") and in compliance with the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (the "Act on Statutory Auditors", Journal of Laws of 2017, item 1089, as amended) as well as Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation", Official Journal of the European Union L158). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("IFAC Code"), adopted by resolution of the National Council of Statutory Auditors, together with the ethical requirements that are relevant to the audit of the financial statements in Poland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. Throughout the audit, both the key

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statutory auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They encompass the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarized our response to those risks and, where appropriate, we presented the key findings related to those risks. We do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter
Analysis of impairment of investments	
Investments in shares recognized in the stand-alone balance sheet of PGSA as at 31 December 2018 amounted to PLN 2,110 m. This item accounts for 93% of the total assets of the entity. The key audit risk is the judgement concerning future cash flows and the calculation of the discount rate assumed in the discounted cash flow model, which are the basis for the analysis of indications of impairment on segments: Core East and Core West.	The audit of the stand-alone financial statements of the entity included the following procedures: – identification and understanding of internal controls applied to test of impairment; – evaluation of the methodology and mathematical correctness of the model; – comparison of the assumptions about future cash flows with approved budgets; – verification of the correctness of data used for the cash flow forecasts by comparing the data from the calculation to actual results, retrospective analysis; – critical review of the key cash flow assumptions made by the Management; – evaluation of the long-term growth rate applied after the forecast period, discount rate and independent estimation of the discount rate; – evaluation of the sensitivity analysis of the key assumptions to determine the changes which individually or jointly affect the conclusions from the tests carried out by the Management; – assessment of the correctness and completeness of disclosures made in the entity's financial statements.

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Responsibilities of the Management Board and the Supervisory Board for the Financial Statements

The Company's Management Board is responsible for the preparation – based on properly kept accounting records – of financial statements which give a true and fair view of the economic and financial position of the Company and of its financial performance in accordance with the applicable International Financial Reporting Standards, as endorsed by the European Union, the adopted accounting policies as well as the applicable laws and articles of association, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Management Board and members of the Supervisory Board of the Company are obliged to ensure that the financial statements meet the requirements of the Accounting Act. Members of the Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The scope of an audit does not include an assurance about the future profitability of the Company or the effectiveness or efficiency of the Management Board in managing the Company's affairs at present or in the future.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, 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 opinion. The risk of not detecting a material misstatement 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 control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management Board;
- conclude on the appropriateness of the Company's Management Board's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements 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 cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company's Supervisory Board regarding, 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.

We also provide the Company's Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information, Including the Report on the Activities

Other information includes a report on the Company's activities in the financial year ended December 31, 2018 (the "Report on the Activities"), together with a statement of compliance with corporate governance principles, which constitute separate part of the report (together: the "Other Information").

Report on the Company's activities of Pfleiderer Group S.A. and the Group of Pfleiderer Group for 2018, was prepared in accordance with Article 55.2 of the Accounting Act as combined.

Responsibilities of the Management Board and the Supervisory Board

The Company's Management Board is responsible for the preparation of the Other Information in accordance with the applicable laws.

The Management Board and members of the Supervisory Board of the Company are obliged to ensure that the Report on the Activities, along with the separate parts, meet the requirements of the Accounting Act.

Auditor's Responsibilities

Our opinion on the financial statements does not cover the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our auditor's report. Additionally, under the Act on Statutory Auditors we are obliged to express an opinion on whether the Report on the Activities has been prepared in accordance with the applicable laws and whether it is consistent with the information contained in the financial statements. Furthermore, we are obliged to state whether a non-financial information statement has been prepared by the Company and to express an opinion on whether the Company has included the necessary information in the statement of compliance with corporate governance principles.

Opinion on the Report on the Activities

Based on our work performed during the audit, we are of the opinion that the Report on the Activities:

- has been prepared in accordance with Article 49 of the Accounting Act par. 70 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (the "Current Information Regulation", Journal of Laws of 2018, item 757);
- is consistent with the information contained in the financial statements.

Furthermore, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements of the Report on the Activities.

Opinion on the Statement of Compliance with Corporate Governance Principles

In our opinion, the statement of compliance with corporate governance principles contains all the information referred to in par. 70.6.5 of the Current Information Regulation. We are also of the opinion that the information referred to in par. 70.6.5(c)-(f), (h) and (i) of the Regulation, as contained in the statement of compliance with corporate governance principles, is in accordance with the applicable laws and consistent with the information included in the financial statements.

Information on Non-Financial Information

In accordance with the requirements of the Act on Statutory Auditors, we would like to inform you that the Company does not prepare a non-financial information statement, relying on the exemption under Article 49b.9 of the Accounting Act. In the Report on the Activities, the Company included information concerning the preparation of a separate non-financial report. By the date of this report, the Company had prepared a separate non-financial report.

We have not performed any assurance services relating to the separate non-financial report and we do not express any form of assurance conclusion thereon.

Report on Other Legal and Regulatory Requirements

Statement Concerning Provision of Non-Audit Services

To the best of our knowledge and belief, we represent that non-audit services which we have provided to the Company and to its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services which are prohibited under Article 5.1 of the EU Regulation and Article 136 of the Act on Statutory Auditors. The non-audit services which we provided to the Company and to its subsidiaries in the audited period have been listed in Point 31 in the Report on the Activities.

Appointment of the Auditor

We were appointed as the auditor of the Company's financial statements by resolution no. 8 of Shareholders' Meeting adopted on 21 June 2017. Our total uninterrupted period of engagement to audit the Company's financial statements is 2 consecutive financial years, i.e. starting from the financial year ended December 31, 2017.

The key statutory auditor on the audit resulting in this independent auditor's report is Piotr Świętochowski.

Acting on behalf of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered seat in Warsaw, entered under number 73 on the list of audit firms, in the name of which the financial statements have been audited by the key statutory auditor:

Piotr Świętochowski
Register no. 90039

Warsaw, 24 April 2019

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

PFLEIDERER

PFLEIDERER GROUP S.A.

STANDALONE ANNUAL
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31
DECEMBER 2018

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STATEMENT OF THE MANAGEMENT BOARD

In accordance with the requirements of the Minister of Finance Regulation of 29 March 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-member state (consolidated text: Journal of Laws of 2018, Item 757), the Management Board of the Pfleiderer Group S.A. represents that the standalone annual financial statements for the financial year ended 31 December 2018 and the comparative data have been prepared to the best of their knowledge in accordance with the applicable accounting principles and that they truly, reliably and clearly reflect the assets, the financial standing and the financial result of the Company, and that the report on the operations of the Company and of the Pfleiderer Group S.A. truly reflects the development and achievements as well as the situation of the Company and of the Group, including a description of the basic risks and threats.

The Management Board of the Pfleiderer Group S.A. represents that the entity authorized to audit financial statements which has audited the standalone annual financial statements, was selected in accordance with the law and that this entity and the statutory auditors auditing these statements fulfilled the conditions to express an impartial and independent opinion on the audited standalone annual financial statements, in accordance with the applicable regulations and professional standards.

Tom K. Schäbinger
President of the Management Board

Nico Reiner
Member of the Management Board, Chief Financial Officer

Wrocław, 24 April 2019

STANDALONE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

Assets	Note	31 December 2018	31 December 2017 *restated (*)*	1 January 2017 *restated (*)*
Property, plant and equipment	13	295	318	353
Interests in subsidiaries	15	2,133,125	2,133,125	2,132,903
Other non-current financial assets	16	75	75	75
Non-current loans advanced	15	-	108,213	103,069
Non-current assets		**2,133,495**	**2,241,731**	**2,236,400**
Inventory		-	-	23
Trade and other receivables	18	40,542	59,577	6,183
Income tax receivables		-	13	852
Cash and cash equivalents	30	75,185	4,413	4,677
Other current financial assets	15	29,465	-	-
Current assets		**145,192**	**64,003**	**11,735**
Total assets		**2,278,687**	**2,305,734**	**2,248,135**
Equity and liabilities				
Equity				
Share capital		21,351	21,351	21,351
Share premium		625,240	625,240	625,240
Reserves		321,023	358,023	374,589
Retained earnings		167,524	438,624	230,138
Total equity	19	**1,135,138**	**1,443,238**	**1,251,318**
Liabilities				
Employee benefit liabilities	22	124	128	172
Deferred tax liabilities	17	-	3,993	184
Non-current liabilities		**124**	**4,121**	**356**
Loans and borrowings	21	974,719	639,582	812,825
Liabilities to related parties under debt securities	24	92,932	146,869	126,901
Income tax liabilities		42	200	-
Trade and other payables	23	72,068	70,378	53,540
Employee benefit liabilities	22	3,664	1,346	3,195
Current liabilities		**1,143,425**	**858,375**	**996,461**
Total liabilities		**1,143,549**	**862,496**	**996,817**
Total equity and liabilities		2,278,687	2,305,734	2,248,135

(*) the restatement of comparative data is described in Note 31

STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Other operating income	7	8,284	10,464
General and administrative expenses	9	(22,676)	(22,697)
Other operating expenses	8	(1,083)	(19,213)
(Loss) from operating activities		**(15,475)**	**(31,446)**
Financial income		212,969	524,386
Finance costs		(56,910)	(73,604)
Net financing income	11	**156,059**	**450,782**
Profit before tax		**140,584**	**419,336**
Income tax expense	12	3,858	(3,794)
Net profit		142,442	415,542
Other comprehensive income Items that may not be reclassified to profit or loss:			
Change in measurement of net liabilities under defined employee benefits		18	61
Other comprehensive income		18	61
Total comprehensive income for the period		144,460	415,603
Basic and diluted earnings per share (in PLN)		2.54	6.49

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserves	Reserve for own shares	Cash flow hedges	Incentive program	Change in measurement of net liabilities under defined employee benefits	Retained earnings	Total
As at 1 January 2018	21,351	625,240	104,604	237,298	15,870	190	61	438,624	1,443,238
Comprehensive income for the period									
Net profit	-	-	-	-	-	-	-	144,442	144,442
Other comprehensive income	-	-	-	-	-	-	18	-	18
Comprehensive income for the period	-	-	-	-	-	-	18	144,442	144,460
Transactions with owners recognized in equity									
Credit to equity for equity settled share-based payments	-	-	-	-	-	2,290	-	-	2,290
Transfer of a portion of the 2017 net profit to dividend payout	-	-	-	-	-	-	-	(71,165)	(71,165)
Transfer of a portion of the 2017 net profit to statutory reserves	-		344,377					(344,377)	-
Other reserve capital allocated to purchase of own shares	-	-	(353,536)	353,536	-	-	-	-	-
Treasury share buyback	-	-	-	(383,685)	-	-	-	-	(383,685)
Transactions with owners recognized in equity	**-**	**-**	**(9,159)**	**(30,149)**	**-**	**2,290**	**-**	**(415,542)**	**(452,560)**
As at 31 December 2018	21,351	625,240	95,445	207,149	15,870	2,480	79	167,524	1,135,138

	Share capital	Share premium	Statutory reserves	Reserve for own shares	Cash flow hedges	Incentive program	Change in measurement of net liabilities under defined employee benefits	Retained earnings	Total
As at 1 January 2017	21,351	625,240	218,719	140,000	15,870	-	-	230,138	1,251,318
Comprehensive income for the period									
Net profit	-	-	-	-	-	-	-	415,542	415,542
Other comprehensive income	-	-	-	-	-	-	61	-	61
Comprehensive income for the period	-	-	-	-	-	-	61	415,542	415,603
Transactions with owners recognized in equity									
Credit to equity for equity settled share-based payments	-	-	-	-	-	190	-	-	190
Transfer of part of the 2016 net profit to dividend payout	-	-	-	-	-	-	-	(71,171)	(71,171)
Transfer of a portion of the 2016 net profit to statutory reserves	-	-	135,885	-	-	-	-	(135,885)	-
Other reserve capital allocated to purchase of own shares	-	-	(250,000)	250,000	-	-	-	-	-
Treasury share buyback	-	-	-	(152,702)	-	-	-	-	(152,702)
Transactions with owners recognized in equity	**-**	**-**	**(114,115)**	**97,298**	**-**	**190**	**-**	**(207,056)**	**(223,683)**
As at 31 December 2017	21,351	625,240	104,604	237,298	15,870	190	61	438,624	1,443,238

CASH FLOW STATEMENT

	Note	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Cash flows from operating activities			
Net profit		**144,442**	**415,542**
Adjustments		**(156,769)**	**(437,414)**
Depreciation and amortization	9	23	35
Foreign exchange losses/(gains)		20,623	(49,472)
Dividends and interest for the period		(176,682)	(401,310)
(Profit) on sale of intangible assets and property, plant and equipment		-	(2)
Accrued income tax expense	12	(3,858)	3,794
Changes in working capital:			
Movement in trade and other receivables	30	(4,227)	(8,907)
Movement in inventories		-	23
Movement in trade and other payables	30	2,730	20,059
Movement in employee benefit liabilities	30	2,332	(1,824)
Other adjustments		2,290	190
Cash flows from operating activities		**(12,327)**	**(21,872)**
Interest received		47	73
Interest paid		(7)	(2)
Tax (paid) / received		(284)	1,050
Net cash provided by operating activities		**(12,571)**	**(20,751)**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		-	2
Dividends received		108,089	81,920
Acquisition of a subsidiary		(222)	-
Acquisition of property, plant and equipment and intangible assets		-	(4)
Proceeds from repayment of loans advanced		82,000	-
Net cash flows from investing activities		**189,867**	**81,918**
Cash flows from financing activities			
Redemption of debt securities		(1,779,033)	(1,543,735)
Issue of debt securities		1,725,076	1,563,667
Draw-down of borrowings from subsidiaries	21	443,729	158,787
Repayment of borrowings from subsidiaries	21	(24,951)	(6,414)
Other financial proceeds		9,871	3,715
Treasury share buyback		(383,685)	(152,702)
Dividends paid	19	(71,165)	(71,171)
Interest paid		(16,063)	(3,212)
Other financial expenditures		(10,303)	(10,366)
Net cash flows from financing activities		**(106,524)**	**(61,431)**
Total net cash flows		**70,772**	**(264)**
Movement in balance sheet cash, including:		**70,772**	**(264)**
Net cash flow		70,772	(264)
Cash and cash equivalents at the beginning of the reporting period		4,413	4,677
Cash at the end of the period		75,185	4,413

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1. GENERAL INFORMATION

Pfleiderer Group S.A. is a joint stock company domiciled in Poland whose shares are publicly traded. The Company, under its former name of Zakłady Płyt Wiórowych S.A. of Grajewo, was originally registered on 1 July 1994 by the District Court, Commercial Court of Łomża, in Section B of the Commercial Register under entry No. 270. Subsequently, on 9 May 2001, it was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On 18 September 2002, the Company Management Board received a decision of the District Court in Białystok on registration of a new name of the Company in the National Court Register, Pfleiderer Grajewo S.A.

On 30 September 2016, the District Court in Białystok entered the change of the name and registered office of the Company as well as amendments to the Company's statute into the commercial register kept for the Company. The Company name was changed from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. and the registered address was moved from Grajewo to Wrocław. The changes were executed pursuant to a resolution No. 9 of the Ordinary General Meeting of Shareholders of 29 June 2016.

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

According to the Polish Classification of Activities (PKD), the Company is registered under number 1621 Z.

As at 31 December 2018, the Pfleiderer Group S.A. was the parent company of the following companies:

- PCF GmbH with its registered office in Neumarkt, Germany,
- Pfleiderer Polska Sp. z o.o. with its registered office in Wrocław.

Moreover, as at 31 December 2018, the Pfleiderer Group S.A. held a 100% stake in Blitz 11-446 GmbH (of which 50% directly and 50% indirectly through PCF GmbH).

These standalone annual financial statements were approved by the Management Board on 24 April 2019.

The Company prepared the standalone annual financial statements for the financial year ended 31 December 2018 which were approved by the Management Board on 24 April 2019.

2. THE COMPANY'S LINE OF BUSINESS

In accordance with the Company's Articles of Association, the Company's line of business consists among others of:

- production of laminated panels, chipboards and other panels made of wood and wood-like materials;
- manufacture of other wood products;
- coating and impregnation of paper and cardboard;
- holding activity;
- other financial services.

3. INFORMATION ON THE COMPOSITION OF THE COMPANY MANAGEMENT BOARD AND SUPERVISORY BOARD

As at 31 December 2018, the Company Management Board was composed of:

- Tom K. Schäbinger — President of the Management Board
- Dirk Hardow — Management Board Member
- Nico Reiner — Management Board Member

On 27 February 2018, Mr. Richard Mayer submitted his resignation from the position of the Management Board Member with effect from 31 March 2018.

On 27 February 2018, the Supervisory Board appointed Mr. Nico Reiner to the Management Board as a Member (Chief Financial Officer), effectively from 1 April 2018 (included).

On 17 December 2018, Mr. Ivo Schintz submitted his resignation from the position of the Member of the Management Board with effect from 17 December 2018.

On 20 March 2019, Mr. Dirk Hardow submitted his resignation from the position of the Management Board Member with effect from 31 March 2019.

On 20 March 2019, the Supervisory Board decided to appoint Mr. Frank Herrmann to the Management Board of the Company as the member of Management Board (Chief Operating Officer), effective as of 1 May 2019.

On 20 March 2019, the Supervisory Board decided to appoint Mr. Stefan Zinn to the Management Board of the Company as the member of Management Board (Chief Commercial Officer), effective as of 1 May 2019.

As at 31 December 2018, the Company Supervisory Board was composed of:

- Zbigniew Prokopowicz — Supervisory Board Chairman
- Michael F. Keppel — Deputy Supervisory Board Chairman
- John Brantl — Supervisory Board Member
- Jan Woźniak — Supervisory Board Member
- Krzysztof Sedzikowski — Supervisory Board Member
- Anthony O'Carroll — Supervisory Board Member
- Julian von Martius — Supervisory Board Member

On 17 December 2018 Mr. Jason R. Clarke submitted his resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the General Meeting of Shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.

On 31 January 2019, Mr. Florian Kawohl submitted his resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the General Meeting of shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.

In view of the above resignations, Mr. John Brantl and Mr. Julian von Martius were appointed to the Supervisory Board on 7 February 2019.

4. INFORMATION CONCERNING PERIODS FOR WHICH THE STANDALONE FINANCIAL STATEMENTS AND COMPARATIVE DATA ARE PRESENTED

These standalone annual financial statements have been prepared for the financial year ended 31 December 2018 and the comparative financial data and explanatory notes cover the financial year ended 31 December 2017.

5. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

a) Compliance statement

The standalone financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") to be used in the European Union.

Detailed information on the accounting policy of the Company is presented in Note 6.

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The impact of adoption of these new standards is described in point b) below.

A number of new standards, amendments to standards and interpretations have been published but were not yet effective for annual periods ending on 31 December 2018 and have not been applied in the standalone financial statements. The Company intends to apply them to periods in which they are effective for the first time.

New standards and amendments to existing standards that have already been issued by IASB and endorsed by the EU but have not entered into force yet

- **IFRS 16 "Leases"** approved by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IFRS 9 "Financial Instruments"** – Description of prepayment options with negative compensation, as approved by the EU on 22 March 2018 (applicable to annual periods beginning on or after 1 January 2019),
- **IFRIC 23 interpretation: "Uncertainty over Income Tax Treatments"** approved by the EU on 23 October 2018 (applicable to annual periods beginning on or after 1 January 2019).

New standards and amendments to standards issued by the IASB but not endorsed by the EU

IFRS as approved by the EU do not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), except for the following new standards, amendments to standards and new interpretations, which, as at the date of publication of the financial statements were still not approved for application in the EU (the following effective dates refer to the standards in full version):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to start the process of approving this temporary standard for application within the EU until the final version of IFRS 14 is issued;
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 9 "Financial Instruments"** – Description of prepayment options with negative compensation (applicable to annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sales or contributions of assets between an investor and its associate or joint venture (the effective date of the amendments was deferred until the research work on the equity method is completed),
- **Amendments to IAS 19 "Employee Benefits"** – Program amendment, restriction or settlement (applicable to annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term shares in associates and joint ventures (applicable to annual periods beginning on or after 1 January 2019).
- **Amendments to various standards "Annual Improvements to IFRS (2015-2017 cycle)"** – the changes introduced during the annual cycle of improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) aimed mainly at removing inconsistencies and agreeing on the wording (applicable to annual periods beginning on or after 1 January 2019),
- **IFRIC 22 interpretation: "Foreign Currency Transactions and Advance Consideration"** (applicable to annual periods beginning on or after 1 January 2018),
- **IFRIC 23 interpretation: "Uncertainty over Income Tax Treatments"** (applicable to annual periods beginning on or after 1 January 2019).

The Company performed an analysis of the impact of the above standards, interpretations and amendments to standards and the results are presented in detail below.

IFRS 16 "Leases"

The Company applies new IFRS 16 starting 1 January 2019 retrospectively with the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings at the date of initial application, without restatement of comparative information (IFRS 16 § C7).

At the initial application the Company applies the practical expedient according to which it is not required to reassess whether a contract is, or contains, a lease (IFRS 16 § C3). Therefore the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17.

On initial application of IFRS 16, starting 1 January 2019 the Company will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments (IFRS 16: C8 (b) (i));

b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Present the total amount of cash paid for leasing within financing activities in the consolidated cash flow statement.

On initial application lease liability will be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application which is calculated based on cost of external financing available for East segment. The incremental borrowing rate has been defined for East segment agreements portfolio and for the portfolios of agreements with similar leasing length.

The Company applies practical expedient described in IFRS 16 § C10 (b) according to which the Group relies on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review as at 1 January 2019.

By implementing IFRS 16 the Company applies the following recognition exemptions (IFRS 16 § 5):

- Short-term leases
- Leases for which the underlying asset is of low value – below 5 000 USD according to the Group's accounting policy.

Moreover the Company applies a practical expedient according to IFRS 16 § 15 and elected, for leased vehicles, not to separate non-lease components (service and insurance fees) and instead account for each lease component and any associated non-lease components as a single lease component.

As at 31 December 2018, the Company has non-cancellable operating lease commitments of PLN 4,070 thousand (Note 26).

Performed assessment indicates that the Company will recognise a right-of-use asset of approx. PLN 1,678 thousand and a corresponding lease liability of approx. PLN 2,750 thousand. The impact on profit or loss for year 2019 (based on the contracts existing as at 1 January 2019) is to decrease external services expenses by approx. PLN 254 thousand, to increase depreciation by approx. PLN 268 thousand and to increase interest expenses by approx. PLN 34 thousand.

The above described expected impact on 2019 profit or loss and cash flows can change due to new contracts or modifications of existing contracts.

Other standards
The other standards and amendments should not have a significant impact on the Company's future financial statements.

b) Adoption of new and revised standards

IFRS 9 "Financial instruments"

IFRS 9 replaced IAS 39 Financial instruments: recognition and measurement and is effective for annual periods beginning as at or after 1 January 2018.

The Group applied IFRS 9 from 1 January 2018, without restating its comparative data.

Due to the insignificant impact of the new standard, its effects were not recognised as retained earnings as of 1 January 2018. Starting from 1 January 2018, the Group recognises expected credit losses in accordance with IFRS 9 requirements.

The implementation of new standard had no impact on the measurement of derivatives or of financial liabilities.

After analysis, the Group decided not to implement the changes resulting from IFRS 9 as regards hedge accounting from 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 repeals IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and applies to all contracts with customers, with the exception of those that fall under the scope of other standards. The new standard establishes the Five Step Model for recognising revenue from contracts with customers.

The standard does not have impact on the Company's presented standalone financial statements.

c) Basis of accounting

These standalone annual financial statements have been prepared in accordance with the historical cost principle, except for derivative financial instruments which are measured at fair value.

d) Going concern

These standalone annual financial statements have been prepared on a going concern basis.

e) Functional and presentation currency

These standalone annual financial statements are presented in the Polish zloty. All values, unless indicated otherwise, have been rounded to thousands. The Polish zloty is the functional currency of the Company.

f) Judgments and estimates

The preparation of the financial statements in compliance with IFRS requires the Management Board to make professional judgments, estimates and assumptions that affect the adopted accounting policies and the presented values of assets, liabilities, revenues and costs.

Judgments and estimates are subject to verification on an ongoing basis. Adjustments to estimates are recognized prospectively. Information on judgments and estimates that have a material impact on the adjustment risk for the financial year ended 31 December 2018 is described in the following notes:

- Note 6 - subparagraphs (e)(v), (f)(iii): useful lives of property, plant and equipment and intangible assets - determined on the basis of estimated useful lives of property, plant and equipment and intangible assets reviewed at least once a year;
- Notes 12 and 17: income tax - recognition of deferred income tax based on estimates of taxable income in subsequent reporting periods;

- Note 13: recoverable amount of non-current financial assets – the assumptions used to determine the recoverable amount of non-current assets are the higher of fair value less costs to sell and value in use, estimated on the basis of discounted future cash flows, using the assumed discount rate and cash flow growth rate;
- Note 22: measurement of employee related payables. Employee related payables are measured by an actuary. The measurement of employee related payables is based on assumptions concerning interest rates, salary increases, inflation and employee turnover rates.
- Note 25: measurement of financial instruments - estimation of fair value of financial instruments is based on the application of models of measurement of financial instruments;
- Note 26: classification of lease agreements - the Company's Management Board classifies lease agreements on the basis of an analysis of the assumed/transferred risks and benefits related to assets used under the lease agreement;
- Note 28: contingent liabilities - recognition of contingent liabilities requires an estimation of the risk and probable outflows of economic benefits and the best estimate of expenditures required to settle the present obligation at the balance sheet date.

Determination of fair values

Certain accounting policies and disclosures require the determination of fair value of both financial and non-financial assets and liabilities.

The Company has in place a system of control over the fair value determination. The Company regularly reviews significant unobservable parameters and valuation adjustments. If information from third parties, such as brokerage quotes or valuations, is used to determine the fair values, the Company assesses whether the evidence received meets the requirements of IFRS, including the level of hierarchy to which the valuation should be classified.

In determining the fair value of assets and liabilities, the Company uses observable market data as far as possible. The fair values are divided into the following levels of the fair value hierarchy depending on the parameters used in the valuation:

Level 1: prices quoted (unadjusted) in active markets for the same assets and liabilities.

Level 2: parameters other than quoted prices at Level 1 that are observable for assets or liabilities either directly (i.e. prices) or indirectly (i.e. on the basis of prices).

Level 3: parameters for assets or liabilities that are not based on observable market data (unobservable input).

If the parameters used in determining the fair value of assets or liabilities qualify for different levels of hierarchy, then the determined fair value is entirely classified as the lowest level of the fair value hierarchy which is material to the overall measurement.

The Company makes transfers between the levels of the fair value hierarchy at the end of the reporting period in which the change has occurred.

Further information on the assumptions made in the determination of fair values is disclosed in Note 25 - Financial Instruments.

6. SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting policies adopted by the Company were applied consistently and were compliant with the accounting policies applied in the previous financial year, except for the matters described below.

In the period from 1 January 2018 to 31 December 2018, the Company recognized revenues from the reversal of provisions and costs from the additions to provisions in general and administrative expenses, because the movement in provisions, resulting in the recognition of such revenues and costs, pertained to general and administrative expenses. In order to ensure the comparability of data presented in the financial statements, the following restatements of comparative data have been made:

- other operating expenses recognized for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 19,555 thousand have been decreased by PLN 342 thousand and presented in these financial statements in the amount of PLN 19,213 thousand,
- general and administrative expenses recognized for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 22,355 thousand have been increased by PLN 342 thousand and presented in these financial statements in the amount of PLN 22,697 thousand.

a) Transactions in foreign currencies

Transactions involving the sale or purchase of foreign currencies are recognized in Polish zloty using the purchase or selling exchange rate as at the transaction date applied by the bank whose services are used by the entity.

Transactions denominated in foreign currencies are recognized on the transaction date in PLN using the average exchange rate of the National Bank of Poland for a given currency prevailing on the day preceding the transaction date.

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

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

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

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

	31 December 2018	31 December 2017
EUR	4.3000	4.1709
USD	3.7597	3.4813
GBP	4.7895	-

b) Classification and measurement of financial instruments

(i) Financial instruments other than derivatives

ACCOUNTING POLICY APPLIED FROM 1 JANUARY 2018

Classification of financial assets

Starting from 1 January 2018, the Group classifies financial assets (other than derivatives) to the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income;
- financial assets measured at fair value through profit or loss;

The Group classifies financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.

Initial recognition and derecognition of financial assets

The Company recognises a financial asset when it becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial assets have expired or have been transferred and the Company have transferred substantially all the risks and rewards of ownership of the financial asset.

Initial measurement

At initial recognition, the Company shall measure a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. If the financial asset is measured at fair value through profit and loss, the transaction costs go to profit and loss account.

Subsequent measurement

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized costs are measured at amortized cost using the effective interest rate method reduced by impairment losses, if any. The valuation may also be done at nominal value provided discount effects are not significant.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

To the category of financial assets at fair value through profit or loss, the Group classifies all financial instruments that are not classified as measured at amortized cost or as measured at fair value through other comprehensive income.

The Group classifies as assets measured at fair value through profit or loss: trade receivables in respect to the part subject to factoring agreements. These assets are held within the business model which objective is to sell financial assets.

The Group classifies as assets measured at amortised cost: long-term investment, trade receivables not sold to the factor, cash and cash equivalents and other receivables. These assets are held within the business model which objective

is to hold assets in order to collect contractual cash flows. Additionally, the assets passed SPPI test and therefore will be measured at amortised cost.

No financial assets are classified by the Group to the category of assets measured at fair value through other comprehensive income.

Classification of financial liabilities

Starting from 1 January 2018 the Group classifies financial liabilities into one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

Measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

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

Financial liabilities valued at amortized cost are those other than liabilities measured at fair value through profit or loss (including trade payables, other liabilities, loans, borrowings and other debt instruments).

Liabilities designated at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at their initial recognition for measurement at fair value through profit or loss.

If the contractual terms of a financial liability are modified, which does not cause the derecognition of an existing financial liability, the profit or loss is recognized immediately in the financial result. Profit or loss is calculated as the difference between the present value of the modified and original cash flows, discounted using the original effective interest rate of the liability.

ACCOUNTING POLICY APPLIED TILL 31 DECEMBER 2017

The Company classifies financial instruments other than derivative financial assets into the following categories: loans granted and receivables and financial assets available for sale.

The Company classifies financial instruments other than derivative financial liabilities as other financial liabilities.

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

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

The Company derecognizes a financial liability in the statement of financial position when its contractual obligations are discharged, cancelled, or expire.

Loans advanced and receivables

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

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

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

Cash and cash equivalents comprise cash in hand and demand deposits at banks.

Financial assets available for sale

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

Financial liabilities at amortized cost

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

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

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

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

(ii) Derivative financial instruments and hedge accounting

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

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

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

The Company assesses, both at the time when the hedge is established and on an ongoing basis thereafter, whether it is reasonable to expect that the hedging instruments remain "highly effective" with respect to offsetting changes in the fair value or cash flows of individual items hedged in the entire period for which the hedge has been established,

and whether the actual level of each hedge is within the range of 80-125%. Cash flows hedges are applied for highly probable forecast transactions bearing risk of variations in cash flows whose effects would be recognized in profit or loss of the period.

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

Cash flow hedges

If a derivative financial instrument is designated as a hedge of variability in cash flows relating to a specific risk associated with a recognized asset, a recognized liability or a highly probable planned transaction that could affect the profit or loss of the current period, the portion of the gain or loss on the hedging instrument that is an effective hedge is recognized in other comprehensive income and presented as reserves in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The values accumulated in equity are retained in other comprehensive income and reclassified to profit or loss in the period, in which hedged anticipated cash flows affect profit or loss or the hedged item affects profit or loss.

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

c) Investments in subsidiaries

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

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

d) Investments in jointly controlled entities

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

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

e) Property, plant and equipment

(i) Owned property, plant and equipment

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

The purchase price includes the purchase price of the asset (i.e. the amount due to the seller less deductible taxes: on goods and services and excise tax), public charges (in the case of imports) and costs directly related to the purchase and adjustment of the asset for use, including transport, loading, unloading and storage costs. Rebates, discounts and other similar reductions decrease the asset acquisition cost. The cost of an item of property, plant and equipment under construction includes all costs incurred by the entity during its construction, assembly, adaptation and improvement borne up to the date when the item was fit for use as intended by the management (or until the end of the reporting period if the item has not yet been brought into use), including non-deductible value added tax and excise tax. The production cost comprises also the estimated cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such obligation exists. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment and a fixed asset under construction. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

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

(ii) Reclassification to investment property

If a property is no longer used for own needs and is designated for investment purposes, it is measured at fair value and reclassified to investment property. Any profit arisen from measurement at fair value are recognised in the profit or loss from the current period up to the amount at which they reverse the earlier losses from impairment of a given real property. The remaining part of the profit is recognised in other comprehensive income and stated in the revaluation reserve. Any losses are recognised in profit or loss for the current period.

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

At initial recognition, the Company determines whether the contract is a lease or contains elements of leases.

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

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

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

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

(iv) Subsequent expenditures

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

(v) Depreciation

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

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

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

Depreciation methods, useful lives and residual values of property, plant and equipment items are reviewed at the end of each reporting period and adjusted if appropriate.

f) Intangible assets

(i) Other intangible assets

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

The intangible assets, for which the Company is unable to determine their economic life upon initial recognition are classified as having indefinite economic lives and are not amortized. Every year, the Company assesses the remaining economic lives of such assets and, if their economic lives become finite, they are amortized over their remaining economic lives. Intangible assets with indefinite economic lives are tested for impairment annually, even if there is no evidence of impairment.

(ii) Subsequent expenditure

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

(iii) Amortisation

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

The estimated useful economic lives of intangible assets are as follows:

Licences	2-3 years
Computer software	2 years

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

g) Inventories

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

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

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

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

h) Impairment losses

(i) Non-derivative financial assets

ACCOUNTING POLICY APPLIED FROM 1 JANUARY 2018

IFRS 9 introduces a new approach to the estimation of losses on financial assets measured at amortized cost. This approach is based on estimating the expected losses, as opposed to the model based on IAS 39, which is based on the concept of losses incurred. The assessment of expected losses is made regardless of whether there is any indication of impairment.

At each reporting date, an entity assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

At each reporting date, an entity measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

The most significant item of financial assets in the Group's financial statements, which is subject to the new principles of calculating expected credit losses are trade receivables.

For trade receivables measured at amortised costs the Group applies the simplified approach within which an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses.

For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from customers. The Group estimates the probability

ratio of receivables defaults based on the analysis of lost receivables and the payment time intervals of receivables within last 2 years.

The Company applies the three-level impairment model for financial assets other than trade receivables:

Level 1 – balances for which credit risk has not increased significantly since initial recognition and for which expected credit losses are assessed based on the probability of default within 12 months,

Level 2 – balances for which credit risk has increased significantly since initial recognition, but there is no objective evidence for impairment; expected credit losses are determined based on the probability of default for the entire contractual life of the financial asset,

Level 3 – balances with an objective indication of impairment.

Trade receivables are classified to Level 2 or Level 3.

ACCOUNTING POLICY APPLIED TILL 31 DECEMBER 2017

The previously applied rules for impairment of financial assets required from the Company at the end of each reporting period to assess whether any indication of impairment occurred for financial assets other than measured at fair value through profit and loss.

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

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

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

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

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

(ii) Non-financial assets

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

The recoverable amount of an assets or cash-generating units (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If an asset does not generate cash flows that are largely independent of those from other assets, value in use is estimated for smallest identifiable group of assets that generates cash flows.

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

Impairment loss in respect of goodwill is not reversed. For other assets, at the end of each reporting period impairment losses recognised in prior periods are reviewed to determine if there is any evidence that they no longer exist or have

decreased. An impairment loss recognised in prior periods is reversed if the estimates used to determine the asset's recoverable amount have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Equity

(i) Ordinary shares

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

(ii) Dividends

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

j) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

The Company shall collect and contribute employee retirement benefit premiums under the applicable laws. Contributions paid by both the Company and by an employee are done in accordance with the government program and represent a defined contribution plan. Accordingly, the Company's liabilities for each period are recognised on the basis of the amounts of contributions to be paid for the period.

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

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

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

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

k) Provisions

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

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

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

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

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

l) Revenue

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

ACCOUNTING POLICY APPLIED FROM 1 JANUARY 2018

The Group recognizes revenue using a 5-stage revenue recognition model:

Stage 1: Identifying the contract;

Stage 2: Identifying performance obligations included in the contract;

Stage 3: Determining the transaction price;

Stage 4: Allocating the transaction price to performance obligations;

Stage 5: Recognition of revenue when performance obligations included in the contract are satisfied.

In accordance with IFRS 15 the Group recognises revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either a good or service that is distinct. For each performance obligation an entity shall determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

An entity shall account for a contract with a customer only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party's rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;

- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

ACCOUNTING POLICY APPLIED TILL 31 DECEMBER 2017

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

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

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

m) Operating lease payments

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

n) Finance lease payments

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

o) Net finance income and costs

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

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

Foreign currency gains and losses are presented on a net basis or as financial income and costs or in other operating income, if the gains or losses arise in the operating activity (under trade receivables, trade liabilities, cash and the purchase and sale of fixed assets).

p) Income tax expense

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

Current tax is calculated based on the taxable profit for a given financial year determined in accordance with the relevant tax regulations. Current income tax is calculated in accordance with the applicable tax regulations based on taxable profit and is recognised as a payable in the amount which has not been paid or receivable if the amount of the current income tax paid exceeds the amount due. It is measured using tax rates enacted or substantively enacted at the reporting date, and including any tax adjustments from previous years.

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

Deferred tax assets and deferred tax liabilities may be offset if the Company has a legally enforceable title to set off the recognised amounts and if both the assets and liabilities relate to income tax levied by the same tax authority on the same taxpayer or different taxpayers who intend to settle income tax liabilities and receivables or simultaneously realise the receivables and settle the liabilities.

Deferred tax asset is not recognised for:

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

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

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

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

q) Earnings per share

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

7. OTHER OPERATING INCOME

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit on sale of non-current assets to unrelated parties	-	2
Other operating income	8,284	10,462
Total	8,284	10,464

Other operating income of PLN 8,284 thousand (PLN 10,462 thousand in 2017) include mainly revenues from services provided to Group companies (services provided by the Company's Management Board, legal, personnel, financial controlling and group accounting services).

8. OTHER OPERATING EXPENSES

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Recognition of accruals	-	(1,724)
Operating foreign exchanges losses	(1,007)	(330)
Costs of a penalty imposed by OCCP	-	(15,958)
Other operating expenses	(76)	(1,201)
Total	(1,083)	(19,213)

In 2017, other operating expenses of PLN 1,201 thousand included mainly Group reorganization costs under the implemented "One Pfleiderer" project of PLN 1,033 thousand. In 2017, the costs of the establishment of other provisions in the amount of PLN 1,724 thousand are in their entirety the costs of the establishment of the provisions for the legal costs of the antitrust appeal proceedings.

9. OPERATING EXPENSES BY NATURE

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Materials and energy	(123)	(174)
Depreciation and amortisation	(23)	(35)
External services	(4,715)	(6,028)
Taxes and charges	(334)	(130)
Employee benefits expenses	(13,350)	(11,985)
Other expenses by kind	(4,131)	(4,345)
Total costs	(22,676)	(22,697)
Total operating expenses	(22,676)	(22,697)
including:		
Administrative expenses	(22,676)	(22,697)

In the period from 1 January 2018 to 31 December 2018, the Company recognized revenues from the reversal of provisions and costs from the establishment of provisions in general and administrative expenses, because the movement in provisions, resulting in the recognition of such revenues and costs, pertains to general and administrative expenses. In order to ensure the comparability of data presented in the financial statements, the following restatements of comparative data have been made:

- other operating expenses recognized for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 1,054 thousand have been decreased by PLN 342 thousand and presented in these financial statements in the amount of PLN 19,213 thousand,
- general and administrative expenses recognized for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 22,355 thousand have been increased by PLN 342 thousand and presented in these financial statements in the amount of PLN 22,697 thousand.

10. EMPLOYEE BENEFITS EXPENSES

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Salaries and wages	(8,014)	(12,626)
Employee benefits	(513)	(837)
Change in retirement benefit obligations	(14)	(24)
Change in liabilities other employee liabilities	(546)	-
Change in unused holiday accrual	24	(80)
Change in liabilities associated with bonus payment	(1,946)	1,794
Long-term incentive program	(2,290)	(190)
Other employee benefits	(51)	(22)
Total	(13,350)	(11,985)

In 2017, the Company commenced a program of payment in the form of shares for selected members of the Management Board and Supervisory Board ("Managers"). The Program provides for the possibility to purchase Pfleiderer Group S.A.'s shares if the assumed goals have been achieved (a detailed description of the program terms and conditions is provided in Note 29). The Program has been classified as equity-settled instrument in the standalone financial statements.

Under this Program, members of the Management Board and Supervisory Board are granted the right to purchase the Company's shares on condition that they meet the terms and conditions provided for in an agreement. The price at which the Managers may purchase the shares ("the option exercise price") was set at PLN 30 per share for Supervisory Board members and PLN 40 for Management Board members (a detailed description of the program terms and conditions is provided in Note 29).

The fair value of the option was calculated with the use of the Monte-Carlo model. The adopted share price was PLN 39.45 based on the market price of a share of 15 September 2017, the expected volatility was adopted at the level of 33% - it is a volatility level according to Bloomberg estimated for the call option (with a 5-year term if the option has an intrinsic value) of Pfleiderer's shares as of the valuation date.

The option fair value in the Program as at the reporting date was PLN 6,185 thousand. In the year ended on 31 December 2018, the Company recognised the cost of the Program in the amount of PLN 2,290 thousand (PLN 190 thousand in 2017).

11. FINANCIAL INCOME AND EXPENSES

Disclosed in profit or loss for the period:

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Interest income	3,298	5,217
Net foreign exchange gains from financing activities	-	49,472
Dividend income	202,837	413,318
Other financial income	6,834	56,379
Financial income	**212,969**	**524,386**
Interest expense	(30,974)	(23,268)
Net foreign currency losses from financing activities	(20,619)	-
Other finance costs	(5,317)	(50,336)
Finance costs	**(56,910)**	**(73,604)**
Costs / Net financing income	156,059	450,782

In 2018, interest income of PLN 3,298 thousand includes mainly interest on the loans granted to Pfleiderer Grajewo MDF Sp. z o.o. (PLN 5,217 thousand in 2017).

The Company recognised the following in the dividend income in 2018:

- PLN 66,616 thousand – pursuant to a resolution of 22 June 2018 of the Ordinary General Meeting of Shareholders of Pfleiderer Polska Sp. z o.o. on the distribution of profit for 2017. A receivable of PLN 66,616 thousand was received on 10 July 2018, and this amount is a difference between the amount of the dividend allocated to Pfleiderer Group S.A. as a result of the distribution of profit of 2017 in the amount of PLN 108,088 thousand and the amount of the interim dividend of PLN 41,472 thousand, as declared under a resolution of 30 December 2017, and received on 10 February 2018.
- PLN 7,355 thousand (EUR 1,719 thousand) - under a resolution of 25 July 2018 of the Company's General Assembly and the Management Board of the subsidiary PCF GmbH on dividend payout for 2017. A receivable of EUR 1,719 thousand under an offsetting agreement of 31 July 2018 was set off against a liability in respect of a loan granted by a subsidiary PCF GmbH. The amount of the offset receivable is a difference between the amount of the dividend allocated to Pfleiderer Group S.A. as a result of the distribution of profit of 2017 in the amount of EUR 10,719 thousand and the amount of the interim dividend of EUR 9,000 thousand, as declared under a resolution of 28 December 2017, which was set off on 31 December 2018 under an offsetting agreement.
- PLN 21,600 thousand – pursuant to a resolution of 30 December 2018 of the Ordinary General Meeting of Shareholders of Pfleiderer Polska Sp. z o.o. on the distribution of an interim dividend for 2018. The Company received the receivable in respect of the dividend on 28 March 2019.
- PLN 107,266 thousand (EUR 24,946 thousand) - under a resolution of 31 December 2018 of the Company's General Assembly and the Management Board of the subsidiary PCF GmbH on interim dividend payout for 2018. Under the offsetting agreement of 31 December 2018, the receivable in respect of the dividend was set off on 31 December 2018 against a liability in respect of a loan granted by PCF GmbH for the buyback of treasury shares of 25 September 2017.

In 2018, other financial income of PLN 6,834 thousand includes: compensation for intercompany sureties granted in the amount of PLN 4,690 thousand and revenues from transferring a justified part of the current refinancing costs to subsidiaries as well as adaptation of the key of cost allocation between Group Companies in the amount of PLN 2,144 thousand.

In 2017, other financial income of PLN 56,379 thousand includes: revenues from transferring a justified part of refinancing costs to subsidiaries (PLN 42,413 thousand) as well as current costs of previous and current financing and income

on settlement of intercompany sureties granted mutually by Group Companies for the previous and current financing (PLN 7,030 thousand).

Interest expenses in 2018 in the amount PLN 30,974 thousand (PLN 23,268 thousand in 2017) include interest on euro denominated loans due to PCF GmbH (PLN 28,980 thousand) as well as interest on commercial papers issued in the form of zero-coupon bonds (PLN 1,988 thousand) taken up by the subsidiaries Pfleiderer Wieruszów Sp. z o.o. and Pfleiderer Polska Sp. z o.o.

Foreign currency losses in the amount of PLN 20,619 thousand refer to the valuation and partial repayment of the loans granted by the subsidiary PCF GmbH for the buyback of treasury shares as well as the liability to PCF GmbH taken over in 2016 from Atlantik S.A. (the details of loan repayment and partial repayment of the assumed liability are described in Note 21).

Other financial costs in 2017 in the amount of PLN 50,336 thousand include mainly the refinancing acquisition costs for the Pfleiderer Group.

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

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Interest income on financial assets	3,298	5,217
Interest expense on financial liabilities	(30,974)	(23,268)
	(27,676)	(18,051)

12. INCOME TAX EXPENSE

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Income tax expense		
Current portion of income tax	(139)	-
Deferred income tax		
Relating to recognition and reversal of temporary differences	3,997	(3,794)
Income tax expense recognised in profit or loss of the period	3,858	(3,794)

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

		1 January 2018 – 31 December 2018		1 January 2017 – 31 December 2017
Profit before tax		140,584		419,336
Profit before tax	%	**140,584**	%	**419,336**
Tax at domestic rate	19%	26,711	19%	79,674
Non-tax-deductible expenses		3,970		3,137
Unrecognized deferred tax		4,020		71
Non-taxable income		(159)		(558)
Dividends		(38,539)		(78,530)
Adjustments of the current income tax from previous years		139		-
Effect on income tax	**21.74%**	**(30,569)**	**18.10%**	**(75,880)**
Income tax at effective tax rate	2.74%	3,858	0.90%	(3,794)
Income tax expense recognised in profit of the period		3,858		(3,794)

13. PROPERTY, PLANT AND EQUIPMENT

Gross value	Land, buildings	Plant and equipment	Other	Fixed assets under construction	Total
1 January 2017	429	119	264	-	812
Decreases			(108)		(108)
31 December 2017	429	119	156	-	704
1 January 2018	429	119	156	-	704
31 December 2018	429	119	156	-	704

Accumulated amortisation and impairment losses	Land, buildings	Plant and equipment	Other	Fixed assets under construction	Total
1 January 2017	112	89	258	-	459
Depreciation and amortisation	21	13	1		35
Decreases			(108)		(108)
31 December 2017	133	102	151	-	386
1 January 2018	133	102	151	-	386
Depreciation and amortisation	13	9	1	-	23
31 December 2018	146	111	152	-	409
Net value					
1 January 2017	**317**	**30**	**6**	**-**	**353**
31 December 2017	296	17	5	-	318
1 January 2018	**296**	**17**	**5**	**-**	**318**
31 December 2018	283	8	4	-	295

Impairment of non-financial non-current assets

The Management Board did not identify any impairment indicators for its non-financial non-current assets as at 31 December 2018. No such indicators were found in the analysis. All property, plant and equipment items secure the loans and borrowings.

14. INTANGIBLE ASSETS

As at 31 December 2018, the Company has intangible assets in particular licenses and software, with a gross value of PLN 4,817 thousand. These intangible assets as at 31 December 2018 are fully depreciated. No impairment losses on intangible assets were recognised in the reporting period and in the comparative period. As at the reporting date, intangible assets were not used as security for bank loans and other borrowings.

15. INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries comprise:

	31 December 2018	31 December 2017 restated (*)
Long term investments:		
Interests in subsidiaries	2,133,128	2,133,125
Non-current loans advanced to subsidiaries	-	108,213
Short term investments:		
Current loans advanced to subsidiaries	29,465	-
	2,162,590	2,241,338

(*) the restatement of comparative data is described in Note 31

15.1. Interests in subsidiaries

The Company's interests in subsidiaries comprise:

	Country	Value of shares at acquisition cost	Ownership interest	Country	Value of shares at acquisition cost	Ownership interest
		31 December 2018			**31 December 2017** *restated (*)*	
Pfleiderer Polska Sp. z.o.o.	Poland	932,310	100%	Poland	932,310	100%
PCF GmbH	Germany	1,200,815	100%	Germany	1,200,815	100%
		2,133,125			2,133,125	

(*) the restatement of comparative data is described in Note 31

The increase in the value of shares in the subsidiary PCF GmbH as at 31 December 2018 is the result of the recognition of a correction note regarding a material error of the financial statements for the financial year 2016, which represents an increase in the initial purchase price of a subsidiary that included the cost of German acquisition tax property.

On the basis of information received from the German tax authorities and external analysis commissioned by the Company, the Management Board decided to increase the tax liability due to the transfer of ownership from the amount of PLN 22,245 thousand up to PLN 45,595 thousand. The Management Board predicts that payment for this liability will be made during 2019. Detailed information is included in note 31 of this report.

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

	Country	Value of shares at acquisition cost	Direct ownership interest	Country	Value of shares at acquisition cost	Direct ownership interest
		31 December 2018			**31 December 2017**	
Blitz 11-446 GmbH *	Germany	65	50%	Germany	65	50%
		65			65	

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

15.2. Loans advanced to subsidiaries

The Company advanced the following loans to subsidiaries:

	31 December 2018	31 December 2017
Loan to Pfleiderer MDF Grajewo Sp. z o.o.	29,465	108,213
	29,465	108,213

On 29 June 2018, Pfleiderer MDF Grajewo Sp. z o.o. transferred PLN 82,000 thousand to the Pfleiderer Group S.A. as repayment of the loan advanced to it. In the period from 1 January 2018 do 31 December 2018, the Company charged loan interest in the amount of PLN 3,251 thousand.

On 28 February 2019, the Company received cash in the amount of PLN 29,658 thousand from Pfleiderer MDF Grajewo Sp. z o.o. in respect of repayment of the loan in the amount of PLN 29,465 thousand and repayment of interest accrued after the reporting period until the loan repayment date in the amount of PLN 193 thousand.

15.3. Impairment of investments in subsidiaries

The Management Board performed impairment test for investments in subsidiaries as at 31 December 2018.

The recoverable amount of investments in subsidiaries PCF GmbH and Pfleiderer Polska Sp. z o.o. was determined based on their value in use. The calculation was performed based on cash flow projections related to the continued holding of investments in subsidiaries, adopted in budgets for the years until 2023 approved by the Management Board. Cash flows beyond the five-year period are extrapolated at a growth rate of 2% using the Gordon Growth Model. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. The calculation also takes into consideration the current debt of individual investments under analysis, as well as the Company's percentage share in subsidiaries' equity.

The key assumptions used to calculate the value in use as at 31 December 2018 were as follows:

- growth rate beyond the five-year period covered by the budget – 2%;
- risk-free rate – 2.81%
- market risk premium – 6.0%
- discount rates – 8.7%;
- the percentage share in subsidiaries' equity reflects the current structure of the Capital Group Pfleiderer Group S.A.

The values assigned to the key assumptions represent Management Board's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources. The test did not reveal any impairment of investments in subsidiaries as at 31 December 2018.

15.4. Key financial data of subsidiaries:

Period 1 January 2018 – 31 December 2018	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/ (loss)
PCF GmbH – data in thousands PLN	2,786,856	2,018,368	768,487	36,149	109,984
Pfleiderer Polska Sp. z o.o. – data in thousands PLN	1,928,469	219,996	1,708,473	1,477,177	43,991
	4,715,325	2,238,364	2,476,960	1,513,326	153,975

Period 1 January 2017 – 31 December 2017	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/ (loss)
PCF GmbH – data in thousands PLN	2,358,761	1,609,638	749,123	32,215	45,637
Pfleiderer Polska Sp. z o.o. – data in thousands PLN	2,079,420	326,008	1,753,412	1,395,829	108,087
	4,438,181	1,935,646	2,502,535	1,428,044	153,724

16. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets	31 December 2018	31 December 2017
Available-for-sale financial assets	**75**	**75**
-shares in companies not listed on a regulated security market	75	75
	75	75

17. DEFERRED INCOME TAX ASSET AND LIABILITY

Deferred tax asset and liability arise from the following items of the statements of financial position:

	Deferred tax assets 31 December 2018	Deferred tax liabilities 31 December 2018	Net 31 December 2018	Deferred tax assets 31 December 2017	Deferred tax liabilities 31 December 2017	Net 31 December 2017
Non-current assets						
Property, plant and equipment	-	-	-	1	-	1
Non-current loans advanced	-	-	-	-	83	(83)
Current assets						
Trade and other receivables	-	55	(55)		-	-
Other current financial assets	-	19	(19)			-
Non-current liabilities						
Employee benefit liabilities	24	-	24	24	-	24
Current liabilities						
Loans and borrowings	3,062	3,461	(399)	2,686	7,246	(4,560)
Liabilities to related parties under debt securities	15	-	15	11	-	11
Trade and other payables	227	-	227	463	18	445
Employee benefit liabilities	646	-	646	169	-	169
Deferred tax asset/liability	**3,974**	**3,535**	**439**	**3,354**	**7,347**	**(3,993)**
Deferred tax assets and liabilities offset/Recognition of deferred tax assets up to the amount of deferred tax liability	(3,974)	(3,535)		(3,354)	(3,354)	
Deferred tax liability recognized in the statement of financial position	-	-		-	3,993	

Changes in temporary differences during the reporting period:

For the period 1 January 2018 – 31 December 2018

For the period 1 January 2018 – 31 December 2018	1 January 2018	Change in temporary differences recognized in profit or loss for the period	Recognized in equity	31 December 2018
Non-current assets				
Property, plant and equipment	1	(1)	-	-
Non-current loans advanced	(83)	83		-
Current assets				
Trade and other receivables	-	(55)	-	(55)
Other current financial assets	-	(19)		(19)
Non-current liabilities				
Employee benefit liabilities	24	4	(4)	24
Current liabilities				
Loans and borrowings	(4,549)	4,150		(399)
Liabilities to related parties under debt securities	-	15		15
Trade and other payables	445	(218)	-	227
Employee benefit liabilities	169	477	-	646
	(3,993)	4,436	(4)	439
Deferred tax asset recognized up to the amount of the deferred tax liability		(439)		
Deferred income tax related to the occurrence and reversal of temporary differences		**3,997**		

For the period 1 January 2017 – 31 December 2017

For the period 1 January 2017 – 31 December 2017	1 January 2017	Change in temporary differences recognized in profit or loss for the period	Recognized in equity	31 December 2017
Non-current assets				
Property, plant and equipment	3	(2)	-	1
Non-current loans advanced	(79)	(4)	-	(83)
Current assets				
Trade and other receivables	3	(3)	-	-
Non-current liabilities				
Employee benefit liabilities	33	6	(15)	24
Current liabilities				
Liabilities under loans, borrowings and other debt securities	(785)	(3,764)		(4,549)
Trade and other payables	119	326	-	445
Employee benefit liabilities	522	(353)	-	169
	(184)	(3,794)	(15)	(3,993)
Deferred income tax related to the occurrence and reversal of temporary differences		**(3,794)**		

18. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables and advances from other parties	30	-
Trade receivables and advances from related parties	17,612	17,630
Dividend receivables from related parties	21,600	41,472
Current prepayments and accrued income	604	137
Current VAT receivables	584	200
Other receivables	112	138
Total	40,542	59,577

On 31 December 2018, trade and other receivables are the result of holding activity and are fully current. Trade receivables include mainly receivables from recharges of costs related to the execution of strategic projects for the benefit of Group companies (PLN 15,185 thousand) and receivables from annual settlement of services provided to Group companies (PLN 1,687 thousand, including services provided by the Company's Management Board and legal, personnel, financial controlling and group accounting services). As at 31 December 2017 trade receivables from related parties in the amount of PLN 17,630 thousand mainly include receivables from the annual settlement of services provided to group companies in the amount of PLN 12,697 thousand and receivables resulting from settlement of refinancing acquisition costs in the amount of PLN 4,346 thousand.

Trade and other receivables include the following financial receivables:

	31 December 2018	31 December 2017
Trade and dividend receivables	39,242	59,102
Other receivables	50	138
Total	39,292	59,240

19. EQUITY

	31 December 2018	31 December 2017
Par value of share capital in PLN	21,351,332	21,351,332
Number of ordinary shares	64,701,007	64,701,007
Par value per share (in PLN)	0.33	0.33

19.1. Share capital

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

The share capital consisted of 64,701,007 thousand ordinary shares with a nominal value of PLN 0.33 per share. As at 31 December 2018, all shares were paid up. Shareholders have the right to dividend and are entitled to the one vote per share at the General Meeting.

Shareholder structure

The shareholding structure as at the reporting date was as follows:

Shareholder structure as at 31 December 2018	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	19,183,149	29.65%	19,183,149	29.65%
Atlantik S.A.	12,474,561	19.28%	12,474,561	19.28%
Aviva OPF Aviva BZ WBK	6,241,000	9.65%	6,241,000	9.65%
Pfleiderer Group S.A.	12,940,201	20.00%	12,940,201	20.00%
Other shareholders	13,862,096	21.42%	13,862,096	21.42%
Total	64,701,007	100%	64,701,007	100%

(*) In accordance with article 364 Paragraph 2 of the Commercial Companies Code the Company does not execute the shareholding rights attached to the treasury shares, except for the right to transfer the shares or perform the actions aiming at preserving the shareholding rights.

In accordance with the notifications received from shareholders, the following transactions took place in 2018 involving shares of Pfleiderer Group S.A.:

On 15 February 2018, the Company received a notification from its shareholder Nationale Nederlanden OFE on the sale of the Company's shares as part of the share repurchase program announced by the Company. Following the settlement of the transaction, Nationale Nederlanden holds 3,102,115 shares in the Company, representing 4.79% of its share capital and entitling the holder to 3,102,115 votes at the Company's General Meeting of Shareholders, or 4.79% of the total number of votes at the General Meeting of Shareholders.

Announcement of a shares buyback program

Date of purchase	Number of purchased shares	Total price including costs
12 October 2017	3 235 050	152 701
7 February 2018	2 150 883	80 867
27 February 2018	11 000	413
24 August 2018	7 543 268	302 406
Total	12 940 201	536 387

On 12 October 2017, the Company bought back 3,235,050 treasury shares. The repurchase of the shares was based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 20 September 2017. Furthermore, the repurchase of the shares was made in connection with the share repurchase program approved by a resolution adopted by the General Meeting of Shareholders on 21 June 2017. The purchase price was PLN 47 per share. The total price of all the purchased shares was PLN 152,047,350. Costs of buying back treasury shares were PLN 654 thousand.

On 7 February 2018, the Company repurchased 2,150,883 shares with a par value of PLN 0.33 each. The purchase price for the treasury shares was PLN 37.50 per share. The total price for all of the purchased shares was PLN 80,658,112.50. Costs of buying back treasury shares were PLN 209 thousand.

On 27 February 2018, the Company repurchased 11,000 shares with a par value of PLN 0.33 each. The purchase price was PLN 37.50 per share. The total price for all of the purchased shares was PLN 412,500.

Pursuant to a resolution of the Company's Ordinary General Meeting of Shareholders dated 21 June 2017, the shares repurchased under the program may be: (i) offered to eligible individuals authorized to purchase the shares under the incentive program adopted by the Company; (ii) redeemed; or (iii) otherwise disposed of by the Company's Management Board with a view to pursuing the needs resulting from the Company's business.

On 24 August 2018, the Company repurchased 7,543,268 treasury shares, representing approximately 11.66% of the share capital. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 4 August 2018. The purchase price was PLN 40 per share. The total price of all the purchased shares was PLN 301,730,720. The treasury shares were purchased in connection with the implementation of the treasury share repurchase program approved under the resolution no. 24 of the Company's Annual General Meeting of Shareholders dated 11 June 2018. The cost of repurchase of the treasury shares was PLN 675 thousand.

Pursuant to the resolution of the Ordinary General Meeting of Shareholders of the Company dated 11 June 2018, the shares purchased under the programme may be: (i) redeemed; or (ii) otherwise disposed of by the Management Board of the Company, subject to a consent of the Supervisory Board, with a view to the needs resulting from the Company's business.

The total number of treasury shares bought back by the Company at the date of publication of this report is 12,940,201. The total par value of all repurchased shares is PLN 4,270,266.33, representing 20.00% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of 20.00% of the votes at the general meeting of the Company, which represents 20.00% of the overall number of votes in the Company, provided that the Company does not exercise the voting rights attached to the treasury shares.

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

As at the date of publication of these financial statements, the shareholding structure was as follows:

Shareholder structure as at the publication date	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	19,183,149	29.65%	19,183,149	29.65%
Atlantik S.A.	12,474,561	19.28%	12,474,561	19.28%
Aviva OPF Aviva BZ WBK	4,308,424	6.66%	4,308,424	6.66%
Pfleiderer Group S.A.	12,940,201	20.00%	12,940,201	20.00%
Other shareholders	15,794,672	24.41%	15,794,672	24.41%
Total	64,701,007	100.00%	64,701,007	100.00%

(*) According to information from the last General Meeting

19.2. Statutory reserves

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

In 2018, the Company transferred PLN 344,377 thousand from its net profit for the year ended 31 December 2017 to statutory reserve funds.

To finance the purchase of shares within the buyback program described above as well as in reference to the resolutions adopted by the General Meeting of Shareholders with regard to distribution of net profit for 2017, on 11 June 2018, the General Meeting of Shareholders resolved to establish reserves for the payment of the price for the shares bought by the Company within the program and covering the costs of the purchase. The following transfers were made to increase the reserves:

- PLN 164,072 thousand from the Company's statutory reserves (from the funds of this capital derived from profit) to the reserve capital established for the shares buyback program.

- PLN 189,464 thousand from the Company's statutory reserves (from the funds of this capital derived from profit) to the reserve capital established for the program.

19.3. Dividends

At 11 May 2018 the Management Board adopted a resolution on a motion of the Management Board to General Meeting of Shareholders concerning distribution of the Company's profit for year 2017 and recommended assigning PLN 71 164 888.80 for payment of the dividend amounting to PLN 1.20 per share. The above motion was positively opined by the Supervisory Board of the Company on 15 May 2018.

The Ordinary General Meeting of Shareholders of the Company resolved on 11 June 2018 to allocate the net profit for the period from 1 January to 31 December 2017, amounting in total to PLN 415 542 thousand, as follows:

a) in the amount of PLN 71 164 888.80, i.e. PLN 1.20 per share, to the payment of dividends to the Company's shareholders,

b) the remaining amount to the Company's supplementary capital.

The Ordinary General Meeting of Shareholders of the Company set the date used to prepare the list of shareholders eligible to receive the above dividend (record date) for 17 June 2018. The dividend payment date was set for 11 July 2018.

As of 17 June 2018 the Company held 5 396 933 treasury shares. Pursuant to Article 364 Paragraph 2 of the Commercial Companies Code the Company did not receive any dividends as the holder of the above mentioned treasury shares.

20. EARNINGS PER SHARE

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial year. The Company's net profit attributable to ordinary shares for the financial year ended 31 December 2018 amounted to PLN 144,442 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2017 was PLN 415,542 thousand.

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

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

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Number of shares at the beginning of the period	61,465,957	64,701,007
Buyback of shares on 12 October 2017	-	(3,235,050)
Buyback of shares on 7 February 2018	(2,150,883)	-
Buyback of shares on 27 February 2018	(11,000)	-
Buyback of shares on 24 August 2018	(7,543,268)	-
Number of shares at the end of the period	51,760,806	61,465,957
Weighted average number of shares as at 31 December	56,837,183	63,991,955

Basic and diluted earnings per share:

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Basic earnings per share as at 31 December	2.54	6.49
Diluted earnings per share as at 31 December	2.54	6.49

21. LOANS AND BORROWINGS

	31 December 2018	31 December 2017
Current liabilities		
Borrowings from related parties	456,459	108,935
Other financial liabilities	518,260	530,647
Total	974,719	639,582

Bank loans – senior facility agreement in effect from 1 August 2017

As part of its efforts aimed at optimizing the financing structure of the Pfleiderer Group, on 13 April 2017 Pfleiderer Group S.A., PCF GmbH and certain of its German and Polish subsidiaries, Credit Suisse International, Deutsche Bank AG, London Branch, Goldman Sachs Bank USA and others as mandated lead arrangers, Wilmington Trust (London) Limited and Trigon Dom Maklerski S.A. as security agents ("Security Agent") and others entered into a EUR 450,000 thousand senior facilities agreement (hereinafter: "PRIME Agreement"), the initial utilization of which took place on 1 August 2017. Pfleiderer used the proceeds from these loans to repay secured senior bonds issued on 27 June 2014 (PCF GmbH) and to repay debt under the applicable loan agreements initially signed on 4 July 2014 and to finance general corporate purposes of the Group and its working capital needs.

The EUR 450,000 thousand is divided into Term Loan B ("TLB") of EUR 350,000 thousand (PCF GmbH) with a tenor of seven years (fully drawn) and the Revolving Credit Facilities with a tenor of five years amounting to EUR 50,000 thousand (Revolving Facility 1) and PLN 211,480 thousand (Revolving Facility 2) available to companies Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and PCF GmbH, Pfleiderer Deutschland GmbH, whereas part of the Revolving Facility 1 in the amount of EUR 5,000 thousand and part of the Revolving Facility 2 in the amount of PLN 32,628 thousand is available only to Pfleiderer Polska Sp. z o.o. on the basis of ancilliary agreements concluded on 30 October 2018 with BNP Paribas Bank Polska S.A.

On 31 July 2018, the PRIME Agreement was annexed and the amount of financing under TLB was increased to EUR 445,000, resulting in an increase in the total funding amount to EUR 545,000 thousand.

As at the reporting date, these Revolving Facilities were drawn in the amount of PLN 18,202 thousand in the form of an overdraft facility for Pfleiderer Grajewo Sp. z o.o., and bank guarantees were issued under Revolving Facility 2 for the total amount of PLN 6,265 thousand as well as letters of credit in the amount of EUR 797 thousand (PLN 3,428 thousand). Revolving Facility 1 is partially drawn in the form of bank guarantees of EUR 2,291 thousand and PLN 520 thousand (EUR 121 thousand) and letters of credit of EUR 5,040 thousand. Interest on account of cash withdrawals are accrued based on EURIBOR (for drawdowns in EUR) plus margin, WIBOR (for drawdowns in PLN) plus margin, LIBOR (for drawdowns in other currencies) plus margin.

The repayment terms and schedules of bank loans as at 31 December 2018 were as follows:

Lender	Borrower	Currency	Interest rate	Date of repayment	Credit limit	31 December 2018 Amount drawn down in PLN	Amount available in PLN
Credit facilities							
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022 *)	88,307	18,202	70,105
Alior Bank SA	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	78,852	-	78,852
Alior Bank SA	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	EUR	EURIBOR 1M + margin	1 Aug 2022 **)	21,500	-	21,500
Guarantees							
Bank Millennium S.A.	Pfleiderer Group S.A.	PLN		1 Aug 2022	9,693	9,693	-
Limit on credit cards							
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN		1 Aug 2022	2,000	69	1,931
					200,352	27,964	172,388

*) Drawn by Pfleiderer Grajewo Sp. z o.o.

**) Funding amount of EUR 5,000 thousand available as part of the Revolving Facility 1 for the entities Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and PCF GmbH, Pfleiderer Deutschland GmbH

The repayment terms and schedules of bank loans as at 31 December 2017 were as follows:

Lender	Borrower	Currency	Interest rate	Date of repayment	Credit limit	As at 31 December 2017	
						Amount drawn down in PLN	Amount available in PLN
Credit facilities							
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	79,072	-	79,072
Alior Bank SA	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	78,852	-	78,852
Raiffeisen Bank Polska S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	32,628	-	32,628
Guarantees							
Bank Millennium S.A.	Pfleiderer Group S.A.	PLN		1 Aug 2022	18,928	18,928	-
Limit on credit cards							
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN		1 Aug 2022	2,000	58	1,942
					211,480	18,986	192,494

Loans from related parties

On 25 September 2017, PCF GmbH as the lender and Pfleiderer Group S.A. as the borrower entered into a loan agreement for EUR 36,849 thousand. The purpose of this agreement was to provide financing for the buyback of treasury shares (stage I). The loan was paid out on 2 October 2017 and then the unused amount of EUR 1,493 thousand was transferred to the lender on 11 October 2017.

On 16 March 2018, interests accrued in 2017 in the amount of EUR 293 thousand were repaid.

On 31 July 2018, under an offset agreement, a portion of the loan liability was settled with the receivable from the dividend payable to Pfleiderer Group S.A. from its subsidiary PCF GmbH as part of the distribution of profit for 2017 in the amount of EUR 1,719 thousand.

On 31 December 2018, the shareholders of the Company and, accordingly, the Management Board of the subsidiary PCF GmbH adopted a resolution for PCF GmbH to distribute an interim dividend in the amount of EUR 24,106 thousand to Pfleiderer Group S.A. from the profit generated in 2018.

On 31 December 2018, the Company and its subsidiary PCF GmbH entered into an Offsetting and Repayment Agreement. In this manner, a full settlement of the liability was performed.

On 30 January 2018, PCF GmbH as the lender and Pfleiderer Group S.A. as the borrower entered into a loan agreement for EUR 15,000 thousand. The purpose of the agreement was to obtain funding for the execution of the shares buyback program (stage II). The loan was transferred on 2 February 2018. Subsequently, on 6 February 2018, an unused amount of EUR 6,000 thousand was repaid to the lender.

As at 31 December 2018, outstanding debt under the loan was EUR 9,276 thousand (PLN 39,887 thousand).

On 8 August 2018, PCF GmbH as the lender and Pfleiderer Group S.A. as the borrower entered into a loan agreement for EUR 95,000 thousand. The purpose of the agreement was to obtain funding for the execution of the shares buyback program (stage III). The funding was provided in two stages. The first stage (non-cash) was made available on 2 August 2018 in the amount of EUR 6,411 thousand and was used to cover transaction costs associated with an amendment of the terms of the senior facilities agreement as part of the arrangement providing for the availability of additional external funding. The liabilities were covered directly by the subsidiary PCF GmbH. The remaining portion of the loan in the amount of EUR 88,589 thousand was transferred to the company's bank account on 20 August 2018.

As at 31 December 2018, outstanding debt under the loan was EUR 96,877 thousand (PLN 416,572 thousand).

Other financial liabilities

On 5 October 2015, in connection with the acquisition of share in Pfleiderer GmbH, Pfleiderer Group S.A. concluded the agreement with Atlantik SA, based on which Pfleiderer Group S.A. took over an obligation from Atlantik S.A. due to Pfleiderer Service GmbH representing proceeds from sale of Pfleiderer Group S.A. shares held by Pfleiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A.

On 16 March 2018, interests in the amount of EUR 3,050 thousand were repaid. As at 31 December 2018, outstanding debt was of EUR 127,953 thousand (PLN 550,200 thousand).

22. EMPLOYEE RELATED PAYABLES

	31 December 2018	31 December 2017
Payroll liabilities	253	238
Personal income tax liabilities	164	246
Liabilities on account of social security contributions	127	194
Social Benefits Fund	(13)	-
Retirement severance pay liabilities	125	128
Unused holiday accrual	253	277
Employee bonus accrual	2,299	365
Other employee liabilities	580	26
Total	3,788	1,474
Non-current portion	124	128
Current portion	3,664	1,346

Retirement bonus and disability severance payment obligations

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

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

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

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

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

Assumptions used for calculation of the retirement bonus:

- Data on staff turnover was derived from the statistics of Pfleiderer Group S.A. and from the statistics available to an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. To reflect the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.
- The future mortality rate was based on the probability of death depending on age and based on published statistics and the information from the Life Expectancy Tables for Poland compiled by the Central Statistical Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the mortality rate of the population of the Company's employees is similar to the tables, adjusted for the mortality multiplier. Additionally it was assumed that the mortality rate is constant throughout the whole year.
- The probability of becoming a disabled person was based on the historical data from the Social Insurance Institution and estimates prepared by an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. According to the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does

not demonstrate significant sensitivity to slight changes of this parameter.

- The default retirement age for men is 65, and for women is 60, based on the Law signed by the President of the Republic of Poland on 19 December 2016 and its transitional regulations.
- In accordance with the rules governing the award of retirement bonuses, persons terminating their employment with the Company lose their rights to any future retirement bonus and disability severance payment.
- All benefits were calculated is the beginning of each calendar year, with the assumption that all of them are regular distributed throughout the year.
- The calculations were made in PLN.
- Wage increase rate of 3.5% in 2019 and 3% in 2020 and in each year thereafter.
- The discount rate on future benefits was assumed at 2.98%.

Employee bonus accrual

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

23. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017 *restated (*)*
Trade payables to other parties	5,595	1,948
Trade payables to related parties	4,120	3,434
Liabilities on account of a penalty imposed by OCCP	16,559	17,418
Current VAT liabilities	-	1,815
Other liabilities	45,794	45,763
Total	72,068	70,378

(*) the restatement of comparative data is described in Note 31

As at 31 December 2018 and 31 December 2017 other liabilities include in particular German tax on purchase of property in the amount of PLN 45,595 thousand. Direct acquisition of a share in PCF GmbH caused an obligation to pay German tax on purchase of property. The obligation arose from the fact that PCF GmbH directly and indirectly holds shares in Pfleiderer Deutschland GmbH and Pfleiderer Baruth GmbH, while the latter companies own properties in Germany. On the basis of information received from the German tax authorities and external analysis commissioned by the Company, the Management Board decided to increase the liability due to the tax on the transfer of real estate to the amount of PLN 45,595 thousand. The increase in the liability is a correction note for a material error in the financial statements for 2016. The increased tax liability has no impact on the financial result of 2018. The company anticipates that this commitment will be paid during 2019. Detailed information is included in note 31 of this report.

Liabilities related to the fine imposed by UOKiK as at 31 December 2018 include a provision created in connection with the decision of the President of the Office of Competition and Consumer Protection of 28 December 2017 imposing a fine of PLN 15,958 thousand on Pfleiderer Group S.A. The provision created by the Company in the amount of PLN 16,559 thousand also includes a provision for legal costs related to the appeal proceedings in the amount of PLN 601 thousand. The decrease in liabilities related to the fine imposed by UOKiK results from the utilization of a portion of the provision for legal costs in the amount of PLN 859 thousand.

On 28 December 2017, the President of the Office of Competition and Consumer Protection issued decision no. DOK-3/2017 declaring as an anticompetitive practice the conclusion by Kronospan Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Swiss Krono Sp. z o.o. (formerly Kronopol Sp. z o.o.), Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.) and Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.) of an arrangement restricting competition on the domestic market for chipboard sales and on the domestic market for fibreboard sales, involving:

1. the fixing of prices for chipboard and fibreboard, which violates the prohibitions in Article 6 section 1 item 1 of the Competition and Consumer Protection Act and Article 101 item 1a of the Treaty on the Functioning of the European Union

2. the exchange of commercial information about the terms of sale of chipboard and fibreboard, which violates the prohibitions in Article 6 section 1 of the Competition and Consumer Protection Act and Article 101 item 1 of the Treaty on the Functioning of the European Union.

According to the Decision, the arrangement was in force from the beginning of 2008 till 7 September 2011.

In the Decision, the OCCP President imposed a fine of PLN 15,957,741.83 on Pfleiderer Group S.A. and PLN 19,804,706.50 on Pfleiderer Wieruszów Sp. z o.o.

The decision ended the antitrust proceedings launched by the OCCP President in 2012. The decision is not yet final. On 29 January 2018, the Company and Pfleiderer Wieruszów Sp. z o.o. filed appeals against the Decision with the Court of Competition and Consumer Protection.

On 18 January 2018, in connection with the issuance of the Decision, the Company and Pfleiderer Wieruszów Sp. z o.o. recognised provisions in the total amount of PLN 38,682,078.33, with effect from 31 December 2017. The provisions were recognized to secure funds for the anticipated legal costs of appealing against the Decision and for the payment of possible penalties if the Company and Pfleiderer Wieruszów Sp. z o.o. are obliged to pay the penalties stated in the Decision.

Trade and other payables include the following financial liabilities:

	31 December 2018	31 December 2017
Trade payables	9,715	5,382
Other liabilities	229	170
Total	9,944	5,552

The exposure to currency and liquidity risk related to liabilities is presented in Note 25.

24. LIABILITIES TO RELATED PARTIES UNDER DEBT SECURITIES

	31 December 2018	31 December 2017
Liabilities to related parties under debt securities	92,932	146,869
Total	92,932	146,869

The liabilities under debt securities of PLN 92,932 thousand as at 31 December 2018 (31 December 2017: PLN 146,869 thousand) relate to the commercial papers issued in the form of short-term notes. The notes were purchased by the subsidiaries Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Polska Sp. z o.o.

The notes were issued under a debt issue program entered into with a bank. The maximum value of the notes that may be issued under the program is PLN 500,000 thousand.

25. FINANCIAL INSTRUMENTS

25.1. Objectives and methods of financial risk management applied by the Company

The management of the Capital Group bears general responsibility for establishing and supervising the framework over the risk management in the Capital Group.

The Group's financial risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems

are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's operations are exposed to the following risks:

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

25.2. Credit risk

The objective of the Company's credit risk management is to reduce losses which could be incurred due to customers' insolvency. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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

The total credit risk exposure was as follows:

	31 December 2018	31 December 2017
Loans advanced	29,465	108,213
Own receivables	17,642	18,959
Cash and cash equivalents	75,185	4,413
Total	122,292	131,585

Credit risk related to receivables from loans is not diversified. The Company has loan receivables from just one entity, Pfleiderer MDF Grajewo Sp. z o.o., which results in a significant concentration of credit risk as at 31 December 2018. On 28 February 2019 the loans were fully repaid.

Credit risk related to trade receivables is limited. Company as a holding company does not have any trade receivables from entities other than its related parties.

As at 31 December 2018 and 31 December 2017, the ageing structure of trade receivables was as follows:

	Gross value 31 December 2018	Impairment losses 31 December 2018
Not overdue	9,176	1
Overdue by:		
0–180 days	8,467	-
Total	17,643	1

	Gross value 31 December 2017	Impairment losses 31 December 2017
Not overdue	13,418	-
Overdue by:		
0–180 days	859	-
180–360 days	3,353	-
Total	17,630	-

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

25.3. Market risk

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

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

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

Interest rate risk

The Company holds cash at banks, has receivables under loans granted, as well as available credit facilities (there is no utilization of the available credit facilities as at 31 December 2018). Interest rate risk related to cash flow of financial instruments depends on the floating interest rates. As at the end of each reporting period, the Company did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

Financial instruments with fixed and variable interest rate:

	31 December 2018	31 December 2017
Fixed-rate financial instruments		
Liabilities to related parties under debt securities	92,932	146,869
Borrowings from related parties	456,459	108,935
Other financial liabilities	550,200	530,647
	1,099,591	786,451
Variable-rate financial instruments		
Loans granted	29,465	108,213
Cash	75,185	4,413
	104,650	112,626

Sensitivity of cash flows from variable-rate financial instruments

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

	1 January 2018 – 31 December 2018		1 January 2017 – 31 December 2017	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments - contribution to profit before tax	2,011	(2,011)	3,099	(3,099)

Sensitivity of fair value of fixed-rate financial instruments

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

Currency risk

The objective of currency risk management is to minimize losses arising out of unfavourable changes in foreign exchange rates. The Company monitors its currency position from the point of view of cash flows.

The Company's currency risk is mainly related to the euro denominated loan from a subsidiary, drawn to finance the buyback of treasury shares (EUR 106,153 thousand) and other finance liabilities related to an obligation taken over from Atlantik S.A. (EUR 127,953 thousand). Detailed information is presented in Note 21.

The company is exposed to foreign exchange risk in connection with receivables and liabilities expressed in foreign currencies related to the holding operations.

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

As at 31 December 2018:	EUR	USD	GBP
Cash and cash equivalents	72,823	84	-
Trade receivables and prepayments	13,082	-	-
Loans, borrowings and debt securities	(1,006,659)	-	-
Trade and other payables	(4,952)	-	(287)
Other liabilities	(45,595)	-	-
Balance-sheet exposure, gross	(971,301)	84	(287)
Transactions in derivative instruments:	-		-
Net exposure under financial instruments	(971,301)	84	(287)

As at 31 December 2017: *restated (*)*	EUR	USD	USD
Cash and cash equivalents	58	-	78
Trade receivables and prepayments	4,960	-	-
Loans, borrowings and debt securities	(639,583)	-	-
Trade and other payables	(3,088)	-	-
Other liabilities	(45,595)	-	-
Balance-sheet exposure, gross	(683,248)	-	78
Transactions in derivative instruments:	-	-	-
Net exposure under financial instruments	(683,248)	-	78

(*) the restatement of comparative data is described in Note 31

Sensitivity to currency exchange rate changes

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

As at 31 December 2018:	+5% change	-5% change
EUR	(48,565)	48,565
USD	4	(4)
GBP	(14)	14
Effect on profit before tax	(48,575)	48,575
Effect on equity	-	-

As at 31 December 2017: *restated (*)*	+5% change	-5% change
EUR	(34,162)	34,162
USD	4	(4)
Effect on profit before tax	(32,158)	34,158
Effect on equity	-	-

(*) the restatement of comparative data is described in Note 31

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

Currency	31 December 2018	31 December 2017
EUR	4.3000	4.1709
USD	3.7597	3.4813
GBP	4.7895	-

25.4. Liquidity risk

Liquidity management is aimed at protecting the Capital Group against insolvency. This goal is achieved through regular forecasting of debt levels in the perspective of five years and obtaining appropriate financing.

The following tables present a breakdown of the Company's financial liabilities depending on the time remaining to the expiration of the contractual maturity date as at the balance sheet date. The amounts presented in the tables are contractual undiscounted cash flows.

As at 31 December 2018	Carrying amount	contractual cash flows	up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years
Borrowings from subsidiaries	456,459	456,459	456,459	-	-	-	-
Other financial liabilities	550,200	550,200	550,200	-	-	-	-
Liabilities under debt securities	92,932	93,000	93,000	-	-	-	-
Trade and other payables	9,944	9,944	9,944	-	-	-	-
	1,109,535	1,109,603	1,109,603	-	-	-	-

The intention of the Management Board is to capitalize interest on loans and other financial liabilities in the amount of PLN 25,500 thousand.

As at 31 December 2017	Carrying amount	contractual cash flows	up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years
Borrowings from subsidiaries	108,935	109,389	109,389	-	-	-	-
Other financial liabilities	530,647	533,345	533,345	-	-	-	-
Liabilities under debt securities	146,869	147,000	147,000	-	-	-	-
Trade and other payables	5,552	5,552	5,552	-	-	-	-
	792,003	795,286	795,286	-	-	-	-

As at 31 December 2018, the Company had no debt under bank loans. As at 31 December 2018, unused credit facilities amounted to PLN 172,388 thousand. The total amount of credit limits was PLN 200,352 thousand. Credit limits are available until 1 August 2022. For details, see Note 21 to these financial statements. The Company also held cash of PLN 75,185 thousand.

The Company also financed its operations by issuing short-term notes which were acquired by its subsidiaries: Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Polska Sp. z o.o. After redemption, a new series of short-term notes is usually issued for another period, which provides a constant source of financing for the Company.

In 2018, the Company financed itself from the surplus of received dividends from subsidiaries (PLN 108,089 thousand) over the dividend paid to shareholders (PLN 71,165 thousand), as well as from the repayment of the loans by the subsidiary Pfleiderer Grajewo MDF Sp. z o.o. in the amount of PLN 82,000 thousand. These inflows allowed to redeem part of short-term debt securities from the subsidiary Pfleiderer Wieruszów Sp. z o.o. (PLN 53,957 thousand) to cover current financing costs and their settlement between the Group's companies and the costs of holding activities adjusted for a change in working capital.

Share buyback was financed from loans granted by PCF GmbH.Detailed information about borrowings from subsidiaries is presented in Note 21.

25.5. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximates their carrying amounts as at 31 December 2018 and 31 December 2017.

25.6. Capital management

The key ratio used by Pfleiderer Group S.A. to monitor equity is the ratio of equity to total assets. In 2018, the ratio decreased from 65.59% to 49.82%. The decrease was due to the lower net profit generated by the Company in 2018 in the amount of PLN 144,442 thousand (PLN 415,542 thousand in 2017), mainly as a result of lower income from dividends received in the amount of PLN 202,837 thousand (PLN 413,318 thousand in 2017).

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

	31 December 2018	31 December 2017 *restated (*)*
Equity	1,135,138	1,443,238
Total assets	2,278,687	2,305,734
Ratio: Equity / Total assets	48.82%	62.59%

(*) the restatement of comparative data is described in Note 31

The Company manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. The decrease in the Equity/Debt ratio from 172% to 99% resulted mainly from the increase in loans from related parties drawn in 2018 to execute the shares buyback program and the lower level of equity as a consequence of lower net profit generated in 2018.

In 2018, the Company paid a dividend in the amount of PLN 71,165 thousand.

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

26. OPERATING LEASES

As at the balance sheet date, the Company leased 3 company cars under operating lease agreements. The term of all those agreements is 36 months. The last agreements will expire in January 2021. In addition, the Company is a party to long-term lease agreements for office space in the headquarters in Warsaw and Wrocław, moreover the Company holds land in perpetual usufruct with a total area of 5.37 hectares. The right of perpetual usufruct is vested in the Company until 2092.

The payments due to contracts and payments resulting from the perpetual usufruct right, remaining as at reporting date are presented in the table below:

	31 December 2018	31 December 2017
up to 1 year	1 090	230
1-5 years	1 161	170
Over 5 years	1 819	0
Total	4 070	400

27. CONTRACTUAL COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

As at 31 December 2018, the Company did not have any contractual commitments to acquire property, plant and equipment items.

28. CONTINGENT LIABILITIES AND SECURITY

Guarantees granted and security liabilities:

Security

On 13 April 2017, the Group finalized and signed the PRIME Agreement for senior secured credit facilities in the amount of EUR 450,000 thousand, consisting of:

7-year covenant-lite tranche B term loan of EUR 350,000 thousand + margin (Euribor minimum: 0.75%) and OID of 99.0, and a 5-year revolving facility of EUR 100,000 thousand + margin (Euribor minimum: 0%).

On 31 July 2018, the PRIME Agreement was annexed and the amount of financing under TLB was increased to EUR 445,000, resulting in an increase in the total funding amount made available under the PRIME Agreement to EUR 545,000 thousand.

The proceeds from the above facilities were used to redeem all senior secured bonds in the amount of EUR 321,684 thousand issued on 27 June 2014 by PCF GmbH (formerly Pfleiderer GmbH) ("Bonds") to refinance the current senior secured renewable credit facility and to finance the related transaction fees, redemption premium and costs and for general corporate purposes and working capital. The proceeds from this increase in funding in 2018 were used to buy back treasury shares on 25 August 2018 and to finance the related transaction fees, bonuses and costs in the total amount of EUR 78,301 thousand. A portion of this funding in the amount of EUR 16,699 thousand remains at the disposal of the Pfleiderer Group and may be used to buy back additional treasury shares.

Collateral under the senior facility agreement of 13 April 2017 (Polish entities)

In order to secure new liabilities under the senior facility agreement of 13 April 2017 (amended and renewed on 31 July 2018) on 1 August 2017, Pfleiderer Group S.A. established a financial pledge and, subject to its registration, a registered pledge on the shares of Pfleiderer Polska Sp. z o.o. and granted a power-of-attorney to enforce the rights attached to the pledged shares to Trigon Dom Maklerski S.A. ("Polish Security Agent").

To secure the liabilities under the senior facility agreement of 13 April 2018 and the annex of 31 July 2018, the following collateral was established in favor of the lenders:

(i) Pfleiderer Group S.A. concluded an agreement on financial and registered pledges on shares of Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. and granted a power-of-attorney to enforce rights attached to the pledged shares of these companies in favor of Trigon Dom Maklerski S.A. ("Polish Security Agent").

(ii) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. concluded agreements on financial and registered pledges on bank accounts and granted the powers-of-attorney to the Polish Security Agent to use funds from their bank accounts.

(iii) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. entered into assignment agreements to assign commercial, intragroup credit and insurance contracts.

(iv) The following mortgages were established for the Polish Security Agent:

a) Mortgage on properties and perpetual usufruct rights held by Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.) in Wieruszów, Wieruszów/Klatka and Wieruszów/Pieczyska;

b) Mortgage on perpetual usufruct rights held by Pfleiderer MDF Grajewo Sp. z o.o. in Grajewo; and

c) Mortgage on properties and perpetual usufruct rights held by Pfleiderer Silekol Sp. z o.o. in Kędzierzyn-Koźle.

(v) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. submitted their declarations of submitting to enforcement in favor of the Security Agent.

Collateral under the senior facility agreement of 13 April 2017 (German entities)

To secure the liabilities under the senior facility agreement of 13 April 2017 and the annex of 31 July 2018, the following collateral was established in favor of the lenders, while Wilmington Trust (London) Limited was established as a new security agent ("New Security Agent"):

(i) Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland GmbH as pledgors established pledges on their shares held in PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH.

(ii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH i Pfleiderer Baruth GmbH as pledgors established pledges on their main bank accounts.

(iii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH as assignors established security on their receivables under loans from related parties, material trade receivables and insurance receivables.

(iv) German land charges paid were assigned to the Security Agent.

Contingent liabilities

As at 31 December 2018, the Company did not identify any significant contingent liabilities.

29. MATERIAL RELATED-PARTY TRANSACTIONS

In 2018 and 2017, Pfleiderer Group S.A. executed the following commercial transactions with related parties:

	1 January 2018 – 31 December 2018							
Related party	Financial income	Other operating income	Dividend income	Purchase of services	Other operating expenses	Finance costs	Costs related to obtaining funding	Capitalized costs
Pfleiderer Polska Sp. z o.o.	1,021	8,393	88,216	589	3	76	-	-
Pfleiderer MDF Grajewo Sp. z o.o.	3,436	331	-	1	-	-	-	-
Pfleiderer Wieruszów Sp. z o.o.	(628)	2,992	-	10	-	1,912	-	-
Pfleiderer Silekol Sp. z o.o.	120	2,008	-	-	-	-	-	-
Jura Polska Sp. z o.o.	-	25	-	-	-	-	-	-
Pfleiderer Grajewo Sp. z o.o.	(56)	1,050	-	26	-	-	-	-
PCF GmbH	5,366	757	114,621	722	-	28,980	1,190	205
Pfleiderer Deutschland GmbH	-	3,031	-	203	-	-	-	-
Pfleiderer Neumarkt GmbH	-	4,603	-	-	-	-	-	-
Pfleiderer Leutkirch GmbH	-	2,243	-	-	-	-	-	-
Pfleiderer Gutersloh GmbH	-	3,009	-	-	-	-	-	-
Pfleiderer Arnsberg GmbH	-	1,613	-	-	-	-	-	-
Pfleiderer Baruth GmbH	-	2,673	-	-	-	-	-	-
Total	9,259	32,728	202,837	1,551	3	30,968	1,190	205

1 January 2017 – 31 December 2017								
Related party	Financial income	Other operating income	Dividend income	Purchase of services	Other operating expenses	Finance costs	Costs related to obtaining funding	Capitalized costs
Pfleiderer Polska Sp. z o.o.	247	11,566	42,246	961	-	51	-	-
Pfleiderer MDF Grajewo Sp. z o.o.	6,458	240	-	2	-	-	-	-
Pfleiderer Wieruszów Sp. z o.o.	2,364	541	-	51	-	2,301	-	-
Pfleiderer Silekol Sp. z o.o.	1,408	156	-	36	-	-	-	-
Jura Polska Sp. z o.o.	-	21	-	217	-	-	-	-
Pfleiderer Grajewo Sp. z o.o.	1,453	299	-	814	44	-	-	-
PCF GmbH	49,593	51	371,072	240	140	21,447	-	-
Pfleiderer Deutschland GmbH	-	791	-	-	-	-	-	-
Total	61,523	13,665	413,318	2,321	184	23,799	-	-

Related-party transactions as at 31 December 2018 and 31 December 2017 were as follows:

a) financial, trade and other receivables:

Related party	31 December 2018			31 December 2017		
	Loans advanced	Dividend receivables	Trade receivables	Loans advanced	Dividend receivables	Trade receivables
Pfleiderer MDF Grajewo Sp. z o.o.	29,465	-	409	108,213	-	14
Pfleiderer Wieruszów Sp. z o.o.	-	-	1,788	-	-	141
Pfleiderer Polska Sp. z o.o.	-	21,600	340	-	41,472	12,350
Pfleiderer Silekol Sp. z o.o.	-	-	657	-	-	89
Jura Polska Sp. z o.o.	-	-	22	-	-	24
Pfleiderer Grajewo Sp. z o.o.	-	-	1,314	-	-	52
PCF GmbH	-	-	89	-	-	4,169
Pfleiderer Neumarkt GmbH	-	-	4,612	-	-	-
Pfleiderer Gütersloh GmbH	-	-	3,015	-	-	-
Pfleiderer Deutschland GmbH	-	-	1,898	-	-	791
Pfleiderer Leutkirch GmbH	-	-	2,247	-	-	-
Pfleiderer Arnsberg GmbH	-	-	476	-	-	-
Pfleiderer Baruth GmbH	-	-	745	-	-	-
Total	29,465	21,600	17,612	108,213	41,472	17,630

b) financial liabilities, trade and other payables:

Related party	31 December 2018		31 December 2017	
	Financial liabilities (bonds and notes, loans)	Trade receivables	Financial liabilities (bonds and notes, loans)	Trade receivables
Pfleiderer Wieruszów Sp. z o.o.	75,945	-	146,869	-
Pfleiderer Polska Sp. z o.o.	16,988	4,015	-	1,147
Pfleiderer Silekol Sp. z o.o.	-	-	-	40
Pfleiderer Grajewo Sp. z o.o.	-	6	-	9
PCF GmbH	1,006,659	44	639,583	2,081
Pfleiderer Deutschland GmbH	-	55	-	157
Total	1,099,592	4,120	786,452	3,434

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

Amounts due but unpaid are not secured and will be settled in cash. Guarantees and securities extended are described in Note 28 to these financial statements.

Remuneration of members of the Management and Supervisory Boards

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

		1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Tom K. Schäbinger	(from 1 June 2017)	1,697	546
Dirk Hardow		1,008	508
Dr. Nico Reiner	(from 1 April 2018)	862	-
Ivo Schintz	(from 1 August 2017)	2,510	548
Richard Mayer	(until 31 March 2018)	157	798
Rafał Karcz	(until 30 September 2017)	-	3,588
Wojciech Gątkiewicz	(until 1 August 2017)	-	840
Michael Wolff	(until 1 June 2017)	-	1,238
Total		6,234	8,066

The remuneration of Mr. Ivo Schintz for 2018 includes the cost of severance pay (a benefit payable due to an early termination of the employment relationship) in the amount of PLN 568 thousand.

As of 31 December 2018 The President of the Management Board, Tom K. Schäbinger, held 16 750 shares, other members of the Management Board held no shares in the Company.

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

Name		1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Zbigniew Prokopowicz		1,446	1,342
Michael F. Keppel		421	400
Krzysztof Sędzikowski		359	338
Jan Woźniak		336	249
Stefan Wegener	(until 18 October 2017)	-	367
Tod Kersten	(until 18 October 2017)	-	124
Total		2,562	2,820

As at 31 December 2018, other members of the Pfleiderer Group S.A.'s Supervisory Board did not hold any shares in the Company.

As at 31 December 2018, the members of the Management and Supervisory Boards of Pfleiderer Group S.A. had no outstanding debt under loans from the Company.

Long-term incentive program

On 20 September 2017, the Company's Supervisory Board adopted a resolution regarding the determination of the terms of a long-term incentive program for selected members of the Company's Management Board ("Management Board LTIP").

On 18 October 2017, the Extraordinary General Meeting of Shareholders adopted a resolution regarding the determination of the terms of a long-term incentive program for selected members of the Company's Supervisory Board in the form determined by the Supervisory Board ("Supervisory Board LTIP" and, together with the Management Board LTIP, "LTIP").

According to the terms of the LTIP, the Company will grant selected members of the Management Board and the Supervisory Board (the "Managers") the option to acquire existing shares in the share capital of the Company (the "Call Option Shares") in exchange for the exercise price per share multiplied by the number of the Call Option Shares

to which each Manager is entitled (the "Call Option"). As a rule, the Managers will be entitled to receive the Call Option Shares if they remain a member of a respective governing body of the Company or their appointment as a member of the respective governing body of Company expires pursuant to certain conditions, including, in particular: (i) death; (ii) disability due to which the Manager is unable to perform his duties as a member of a respective governing body of the Company; or (iii) the lapse of the term for which the respective Manager was appointed as a member of the respective governing body of Company and the lack of election to a subsequent term of office for reasons other than for cause or occurrence of a material breach of his obligations; or (iv) dismissal from the respective governing body of Company for reasons other than for cause or occurrence of a material breach of his obligations.

The Call Option will be vested in six tranches. Each vested tranche will entitle each Manager to acquire, respectively, 5%, 5%, 7.5%, 10%, 22.5% and 50% (each defined as a "Tranche") of the overall number of the Call Option Shares to which each Manager is entitled if with respect to a given Tranche the price of the Company's shares reaches, respectively, PLN 40.00, PLN 47.00, PLN 55.00, PLN 63.00, PLN 70.00 and PLN 80.00 ("Tested Share Price"). In the event that, during the term of five consecutive years from the date of the adoption of the resolution regarding the Supervisory Board LTIP, the Tested Share Price for any of the respective Tranche has not been met and Call Option Shares related with such Tranche were not vested, the Manager shall irrevocably lose the right to acquire such Call Option Shares without the right to any compensation. The Tested Share Price constitutes: (i) the arithmetic average of the market price of the shares established on the basis of the daily volume-weighted average prices at the end of each period of 70 (seventy) consecutive trading days on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) through the whole term of the LTIP starting from 1 June 2017 (the "Share Price Test Period"), increased by the sum of all dividends paid or declared to be paid by the Company in the period from the date of the 2 adoption of the resolution regarding the Supervisory Board LTIP until respective Share Price Test Period divided by all of the shares in the Company's share capital; or (ii) the price received by any of the shareholders of the Company holding, individually or in aggregate in case of entities with respect to which their shareholding is aggregated pursuant to applicable securities regulations as at the date of the adoption of the resolution regarding the Supervisory Board LTIP, at least 10% of the shares in the share capital of the Company and the corresponding number of votes at the general meeting of the shareholders of the Company (the "Significant Shareholders") as a result of the direct or indirect transfer by the Significant Shareholders, jointly, of such number of the shares which would result in decreasing their share in the overall number of votes at the general meeting of the shareholders of the Company below 10%, except in the event that one Significant Shareholder sells his shares to the other Significant Shareholder(s).

Each Manager will have the right to exercise each Tranche and acquire the respective number of the Call Option Shares within three years from the date such Manager is informed by the Company that the Tested Share Price has been reached with respect to a given Tranche. The Company, at its sole discretion, may elect not to deliver to the Manager the Call Option Shares subject to the Call Option, but instead to satisfy its obligation with cash. As a rule, the Call Option Shares acquired by a Manager will be subject to lock-up for a term of five consecutive years from the date of execution by the Manager of the respective agreement with the Company regarding the LTIP.

As of the date of signing this Report, due to the changes in the Management Board, the members of the Management Board are in aggregate entitled to receive 1 519 560 Call Option Shares for the exercise price per share of PLN 40. As of the date of signing this Report only one member of the Supervisory Board participates in the Supervisory Board LTIP. He is entitled to receive 283 067 Call Option Shares for the exercise price per share of PLN 30.

In 2018, the Company recognised the cost of the Program in the amount of PLN 2,290 thousand (details are described in Note 10).

30. ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS

Structure of cash and cash equivalents

	31 December 2018	31 December 2017
Cash in hand and at banks	75,185	4,413
Cash disclosed in the statement of cash flows	75,185	4,413

Reconciliation of the change in trade and other payables

	31 December 2018	31 December 2017
Change in trade and other payables	1,690	16,838
Change in capital expenditure liabilities	-	4
Change in liabilities under settlement of financial costs	852	22
Liabilities on the acquisition of related parties	222	(222)
Change in liabilities under settlement of securities	-	2,888
Income tax liability to other companies in the Tax Group	-	529
Provision for other costs related to financing aquisition	(26)	-
Provision for banking fees related to funding	(8)	-
	2,730	20,059

Reconciliation of the change in trade and other receivables:

	31 December 2018	31 December 2017
Change in trade and other receivables	13,605	(53,394)
Change in receivables under settlement of securities	-	3,592
Change in prepayments related to acquisition financing costs settled over time	(351)	(38)
Adjustment to acquisition financing costs settled over time based on change in allocation key	826	-
Change in dividend receivables	(14,443)	41,473
Tax receivables from companies in the Tax Group	-	(540)
Change in receivables related to current financing costs settlement between Group companies	(3,864)	-
	(4,227)	(8,907)

Reconciliation of the change in employee related payables

	31 December 2018	31 December 2017
Change in employee benefit obligations	2,314	(1,893)
Change in employee benefit obligations recognized as other comprehensive income	22	75
Interest portion of employee benefit obligations	(4)	(6)
	2,332	(1,824)

31. CORRECTION OF ERRORS

In this report, the Company corrected error found in the financial statements for the financial year ended 31 December 2016 in the relevant areas of the statement of financial position. Correction does not affect the Company's profits or losses of the financial statements for 2018.

This adjustment results from the incorrect determination of the tax liability resulting from the indirect acquisition of real estate located in Germany, resulting from an intra-group restructuring carried out in 2016 and the acquisition of 100% shares in a subsidiary PCF GmbH (formerly Pfleiderer GmbH).

In the financial statements for 2016 year this liability was recognized in the amount of PLN 22,245 thousand (EUR 5,400 thousand) and presented in the other liabilities and as part of the purchase price was referred to shares in subsidiaries.

As a result of information received from the German tax authorities and external analysis commissioned by the Company, the Management Board admited that liability was recognized in the underestimated amount and on 13 March 2019 decided to increase the liability due to the amount of PLN 45,595 thousand (EUR 10,600 thousand). The increased tax liability was presented in other liabilities and related to shares in subsidiaries. The Management Board of the Company anticipates that the payment will be settled in 2019.

32. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Changes in the Supervisory Board

On 31 January 2019, Mr. Florian Kawohl submitted his resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the General Meeting of shareholders of Pfleiderer Group S.A. of a new member of the Supervisory Board in his place.

On 7 February 2019, Mr. John Brantl and Mr. Julian von Martius were appointed to the Supervisory Board.

Changes in the Management Board

On 20 March 2019, Mr. Dirk Hardow submitted his resignantion from the position of the Management Bord Member with effect from 31 March 2019.

On 20 March 2019, the Supervisory Board decided to appoint Mr. Frank Herrmann to the Management Board of the Company as the member of Management Board (Chief Operating Officer), effective as of 1 May 2019.

On 20 March 2019, the Supervisory Board decided to appoint Mr. Stefan Zinn to the Management Board of the Company as the member of Management Board (Chief Commercial Officer), effective as of 1 May 2019.

Redemption and issue of debt securities

In order to optimizing the financial liquidity management of the Company Pfleiderer Group S.A. after 31 December 2018 carried out 7 issues of commercial paper in a form of short-term notes. The notes were issued under agreement executed with Bank PEKAO S.A. in accordance with a Polish Bonds Act of 29 June 1995 r. as PLN-denominated, unsecured, zero-coupon bearer securities. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. As a result of these transactions, Pfleiderer Group S.A. will pay interests in amount of PLN 305 thousand.

Dividends received

On 28 March 2019, Pfleiderer Group S.A. received an interim dividend for 2018 from Pfleiderer Polska Sp. z o.o. in the amount of PLN 21,600 thousand.

Repayment of the loans granted to the subsidiary

On 28 February 2019, the Company received the amount of PLN 29,658 thousand from Pfleiderer MDF Grajewo Sp. z o.o. in respect of repayment of the loans in the amount of PLN 29,465 thousand and repayment of interest accrued after the reporting period until the loan repayment date in the amount of PLN 193 thousand.

Conclusion of significant agreement

On 11 April 2019, Pfleiderer Group companies (Pfleiderer Polska Sp. z o.o. – as Coordinator and Participants: Pfleiderer Group S.A., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Silekol Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Jura Polska Sp. z o.o.) concluded the Agreement with Bank Millennium S.A. on the cash management structure for the group of accounts and the annex to the ancillary agreement of 27 June 2017. Under the agreement on the cash management structure for the group of accounts, the Bank will perform settlements of one structure in PLN and one in EUR. Conclusion of the Annex to the ancillary agreement of 27 June 2017 makes available part of the Revolving Facility 2 in the form of an overdraft up to PLN 80 000 thousand to the Coordinator and through the structure to all Participants.

The collateral for the repayment of the participants' mutual obligations is guaranteed up to PLN 80 000 thousand.

33. FORECAST OF THE ECONOMIC SITUATION IN THE NEAR FUTURE

Due to the current market situation, the Company will suspend the publication of its forecasts for 2019 until the volatility of market changes diminishes and the situation on the furniture manufacturer market stabilizes.

Tom K. Schäbinger
President of the Management Board

Nico Reiner
Member of the Management Board, Chief Financial Officer

Wrocław, 24 April 2019

Pfleiderer Group S.A. I ul. Strzegomska 42AB I 53-611 Wrocław

Evaluation

of the annual financial statements of the Company, consolidated financial statements of the Pfleiderer Group, the report of the Management on the operations of the Company and of the Pfleiderer Group in 2018 financial year prepared by the Supervisory Board of Pfleiderer Group S.A.

The Supervisory Board of Pfleiderer Group S.A. with its registered office in Wrocław (the "**Company**") performed below presented evaluation, with a justification, relating to the annual financial statements of the Company, consolidated financial statements of the Pfleiderer Group, the report of the Management on the operations of the Company and of the Pfleiderer Group in 2018, regarding their compliance with accounting books, documents and the actual state of affairs.

The financial statements

The Management Board of the Company prepared the standalone annual financial statements of the Company for the period from 1 January 2018 to 31 December 2018 (the "**Financial Statements**"), comprising:

a) the statement of financial position,

a) the statement of profit and loss and other comprehensive income,

b) the statement of changes in equity,

c) the statement of cash flows,

d) notes to standalone annual financial statement.

The Financial Statements were audited by Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k. (until 18 March 2018 operating under the company name: Deloitte Polska spółka z ograniczona odpowiedzialnością sp.k.) with its registered office in Warsaw (the "**Auditor**").

The Auditor was appointed by way of resolution No. 8 of the Ordinary General Shareholders' Meeting of the Company of 21 June 2017.

The Auditor is an entity who was appointed by the General Shareholders' Meeting to audit annual and review mid-year separate financial statements of the Company and consolidated financial statements of the Group, prepared for the periods between January 1, 2017 and December 31, 2018.

On 9 April 2019, the Auditor issued an independent auditor's report on the audit of the annual financial statement (the "**Auditor's Report on the Financial Statement Audit**").

The Supervisory Board of the Company conducted an analysis of the Financial Statements. Based on this analysis as well as the Auditor's Report on the Financial Statement Audit, the Supervisory Board is of the opinion that the Financial Statements have been prepared in all material respects

in accordance with the International Financial Reporting Standards and in compliance with the applicable provisions of law and the Statutes of the Company, and that the Financial Statements comply with the Company's accounting books, other documents of the Company and the actual state of affairs of the Company. Therefore, the Financial Statements present fairly all information significant for the evaluation of the profitability and financial result of the Company in the period from 1 January 2018 to 31 December 2018, as well as for the evaluation of the financial situation of the Company as at 31 December 2018.

Consolidated financial statements of the Pfleiderer Group

The Management Board of the Company prepared the consolidated financial statements of the Pfleiderer Group for the period from 1 January 2018 to 31 December 2018 (the "**Consolidated Financial Statements**"), comprising in particular:

a) the consolidated statement of financial position,

b) the consolidated statement of profit and loss and other comprehensive income,

c) the consolidated statement of changes in equity,

d) the consolidated statement of cash flows.

On 9 April 2019, the Auditor issued an independent auditor's report on the audit of the annual consolidated financial statements (the "**Auditor's Report on the Consolidated Financial Statement Audit**").

The Supervisory Board of the Company conducted an analysis of the Consolidated Financial Statements. Based on this analysis as well as the Auditor's Report on the Consolidated Financial Statement Audit, the Supervisory Board is of the opinion that the Consolidated Financial Statements have been prepared in all material respects in accordance with the International Financial Reporting Standards and in compliance with the applicable provisions of law and the Statutes of the Company and that the Consolidated Financial Statements comply with the Company's accounting books, other documents of the Company and the actual state of affairs of the Company. Therefore, the Consolidated Financial Statements present fairly all information significant for the evaluation of the profitability and financial result of the Pfleiderer Group in the period from 1 January 2018 to 31 December 2018, as well as for the evaluation of the financial situation of the Pfleiderer Group as at 31 December 2018.

The Report of the Management Board

The Management Board of the Company prepared a report of the Management Board on the operations of the Company and the Pfleiderer Group for the year ended on 31 December 2018 (the "**Management Board Report**").

The Supervisory Board concludes that the Management Board Report contains all information necessary to evaluate the activities of the Company and the Pfleiderer Group in the period from 1 January 2018 to 31 December 2018 and that the Management Board Report complies with the Company's accounting books, other documents of the Company and the actual state of affairs of the Company.

The Supervisory Board's formal evaluation of the Financial Statements, Consolidated Financial Statements and the Report of the Management Board

The Supervisory Board hereby positively evaluates the following documents presented by the Management Board of the Company:

1. **The Financial Statements of the Company for the period from 1 January 2018 to 31 December 2018, comprising:**
   a) the statement of financial position,
   b) the statement of profit and loss and other comprehensive income,
   c) the statement of changes in equity,
   d) the statement of cash flows,
   e) additional notes to standalone annual financial statement.
2. **The Consolidated Financial Statements of the Pfleiderer Group for the period from 1 January 2018 to 31 December 2018, comprising in particular:**
   a) the consolidated statement of financial position,
   b) the consolidated statement of profit and loss and other comprehensive income,
   c) the consolidated statement of changes in equity,
   d) the consolidated statement of cash flows.
3. **The Management Board Report on the operations of the Company and the Pfleiderer Group in the period from 1 January 2018 to 31 December 2018.**

24 April 2019

Zbigniew Prokopowicz – Chairman of the Supervisory Board

John Brantl – Deputy Chairman of the Supervisory Board

Dr. Michael F. Keppel – Deputy Chairman of the Supervisory Board

Anthony O'Carroll – Member of the Supervisory Board

Julian von Martius – Member of the Supervisory Board

Krzysztof Sędzikowski – Member of the Supervisory Board

Jan Woźniak – Member of the Supervisory Board

Statement
on compliance with applicable laws relating to the establishment and operations of the Audit Committee acting at the Supervisory Board of Pfleiderer Group S.A.

The Supervisory Board of Pfleiderer Group S.A. with its registered office in Wrocław (the "**Company**") declares that the Company complies with the regulations related to the establishment, composition and operations of the Audit Committee, including those related to compliance by the members of Audit Committee with independence criteria and the requirements regarding their knowledge and skills in the sector, in which the Company operates, as well as regarding accounting and auditing of financial statements.

The Supervisory Board of the Company declares that during 2018 financial year, as well as during a period between 1 January 2019 and the date of this statement, the Audit Committee acting at the Supervisory Board of the Company was performing its tasks provided by the applicable laws.

24 April 2019

Zbigniew Prokopowicz – Chairman of the Supervisory Board
John Brantl – Deputy Chairman of the Supervisory Board
Dr. Michael F. Keppel – Deputy Chairman of the Supervisory Board
Anthony O'Carroll – Member of the Supervisory Board
Julian von Martius – Member of the Supervisory Board
Krzysztof Sędzikowski – Member of the Supervisory Board
Jan Woźniak – Member of the Supervisory Board

**Information of the Management Board of Pfleiderer Group S.A.
regarding an election of the audit firm that audits annual financial statements in accordance with provisions of law, including those related to the selection and procedure of selecting an audit firm**

Legal base: § 70 (1) item 7 and § 71 (1) item 7 *Regulation of the Minister of Finance of 29 March 2018 regarding current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state* (Official Journal of Laws 2018 item 757)

This information has been prepared on the basis of the statement of the Supervisory Board of Pfleiderer Group S.A. of April 24, 2019 regarding an election of the audit firm that audits annual financial statements in accordance with provisions of law, including those related to the selection and procedure of selecting an audit firm.

The Management Board of Pfleiderer Group S.A. with its registered office in Wrocław (the '**Company**') informs that the election of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, as an audit firm that audits the annual separate financial statements of the Company for 2018 and the annual consolidated financial statements of the Company for 2018, was made in accordance with the applicable regulations, including those related to the selection and procedure of selecting an audit firm.

The Management Board of Pfleiderer Group S.A. also informs that:

a) the audit firm and the members of the audit team met the conditions for preparing an impartial and independent audit report on the Pfleiderer Group S.A. annual separate financial statements for 2018 and the annual consolidated financial statements of the Pfleiderer Group S.A. for 2018, in accordance with applicable regulations, professional standards and professional ethics,
b) at Pfleiderer Group S.A. the applicable regulations related to the rotation of the auditing company and the key statutory auditor and obligatory grace periods are respected,
c) Pfleiderer Group S.A. has a policy regarding the selection of an audit firm and a policy regarding the provision of additional non-audit services, including conditionally exempt services from an audit firm, by an audit firm, an entity related to the auditing company or a member of its network.

24 April 2019

Thomas Schäbinger – President of the Management Board

Dr. Nico Reiner – Member of the Management Board, CFO