POLISH FINANCIAL SUPERVISION AUTHORITY

Non-Consolidated Annual Report R 2017
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 2017, covering the period from January 1st to December 31st 2017,

including financial statements prepared in accordance with the IFRS

currency: PLN

Date of filing: April 11th 2018

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)

FINANCIAL HIGHLIGHTS	PLN '000		EUR '000	
	2017	2016	2017	2016
I. Sales revenue	0	395 449	0	90 635
II. Operating profit/(loss)	-31 446	8 117	-7 388	1 860
III. Profit/(loss) before tax	419 336	204 868	98 517	46 955
IV. Net profit	415 542	207 056	97 625	47 456
V. Net cash provided by (used in) operating activities	-20 751	30 240	-4 875	6 931
VI. Net cash provided by (used in) investing activities	81 918	-405 938	19 245	-93 039
VII. Net cash provided by (used in) financing activities	-61 431	349 392	-14 432	80 079
VIII. Total net cash flow	-264	-26 306	-62	-6 029
IX. Total assets	2 282 384	2 224 785	546 417	504 452
X. Liabilities	839 146	973 467	200 897	220 726
XI. Non-current liabilities	4 121	356	987	81
XII. Current liabilities	835 025	973 111	199 910	220 645
XIII. Equity	1 443 238	1 251 318	345 520	283 726
XIV. Share capital	21 351	21 351	5 112	4 841
XV. Outstanding shares at the end of the reporting period	64 701 007	64 701 007	64 701 007	64 701 007
XVI. Weighted average diluted number of shares	63 991 955	63 918 321	63 991 955	63 918 321
XVII. Earnings per ordinary share (PLN/EUR)	6,49	3,24	1,53	0,74
XVIII. Diluted earnings per ordinary share (PLN/EUR)	6,49	3,24	1,53	0,74
XIX. Book value per share (PLN/EUR)	22,31	19,34	5,34	4,39
XX. Declared or paid dividend per share (PLN/EUR)	1,10	1,00	0,25	0,23

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First name and surname	Position	Signature
April 11th 2018	Thomas Schäbinger	President of the Management Board	
April 11th 2018	Nico Reiner	Member of the Management Board	
April 11th 2018	Dirk Hardow	Member of the Management Board	
April 11th 2018	Ivo Schintz	Member of the Management Board	

PFLEIDERER GROUP S.A.
WROCŁAW, STRZEGOMSKA 42AB

FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2017

WITH
AUDITOR'S REPORT

TABLE OF CONTENTS

AUDITOR'S REPORT

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

Auditor's report

We have audited the attached annual financial statements of Pfleiderer Group S.A. with its registered office in Wrocław, Strzegomska 42AB (hereinafter: "Company") comprising: a statement of financial position prepared as at 31 December 2017, statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows prepared for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information ("financial statements").

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Company is obliged to prepare the financial statements based on properly kept accounting records and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the entity's articles of association. The Management Board of the Company is also responsible for ensuring internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395), hereinafter referred to as the "Accounting Act".

Auditor's responsibility

Our responsibility was to express an opinion whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the entity in line with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

Our audit of the financial statements has been performed in accordance with:

1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089, as amended) ("*Act on statutory auditors*");
2) National Auditing Standards in the wording of the International Standards on Auditing adopted by resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended, in connection with resolution No. 2041/37a/2018 of 5 March 2018 on domestic professional standards;

3) 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 and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("*Regulation 537/2014*").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the financial statements as a whole have been prepared based on properly kept accounting records and 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 the above standards 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 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 and may involve any area of law and regulation not just those directly affecting the financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Company, as well as evaluating the overall presentation of the financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as of the date of this auditor's report.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited entity in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5.1 of Regulation 537/2014.

Choice of audit firm

We were appointed to audit the financial statements of the Company by resolution no. 8 of Shareholders' Meeting adopted on 21st June 2017. We have been auditing the financial statements of the entity for the period beginning with the financial year ended 31st December 2017.

Most significant risks

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

Description of the risks of material misstatement	**Procedures carried out by the auditor in response to identified risks and key observations arising with respect to those risks**
Risk of execution of fines imposed by the President of the Office of Competition and Consumer Protection (the "President of the OCCP")	
As described in Note 23 of financial statements, on 28 December 2017 the President of the OCCP imposed a fine of PLN 15.958 thousand on Pfleiderer Group S.A. for anti-competitive practice from the beginning of 2008 to 7 September 2011. The Company created provisions in the total amount of PLN 17.418 thousand, including legal costs related to appeal in the amount of PLN 1.460 thousand. This issue was the subject of our special attention due to the fact that the valuation of provisions is complex and requires the Management to make accounting estimates and judgments.	Our audit procedures included: – we have sent an independent letter to the lawyer firm dealing with anti-monopoly proceedings and reviewed the answer, – we have discussed with Company's lawyers and Management the current legal status of proceedings, – we have analyzed the Company's assessment of anti-monopoly proceedings and the valuation of provisions, – we have discussed the issue with Deloitte's experts and analyzed the probability that the decision will be legally effective. The disclosures in the financial statements are sufficient and complete in the context of the requirements of the relevant accounting standards.

Opinion

In our opinion, *the attached annual financial statements:*

- give a true and fair view of the economic and financial position of the Company as at 31st December 2017 and its financial performance during the financial year from 1st January 2017 to 31st December 2017, in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- have been prepared based on properly kept — in line with chapter 2 of the Accounting Act — accounting records
- comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the entity.

Other matters

The financial statements of the Company for the prior financial year ended 31 December 2016 were audited by another certified auditor who issued an unqualified opinion on those financial statements on 25th April 2017.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

The Management Board of the Company and members of the Supervisory Board are responsible for the preparation of the report on the activities in line with the provisions of law.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities complies with the provisions of law and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities and to describe the misstatement (if any), based on our knowledge of the Company and its business environment obtained in the course of the audit.

In our opinion, the report on the activities has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached financial statements. Furthermore, we represent that based on our knowledge of the entity and its business environment obtained in the course of the audit of the financial statements, we believe that the report on the activities is free from material misstatements.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Company is responsible for the preparation of the statement of compliance with corporate governance principles in line with the provisions of law. The Management Board of the Company and members of the Supervisory Board are obliged to ensure that the statement of compliance with corporate governance principles meet the requirements of the provisions of law.

As the auditors of the financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91.5.4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) ("*Ordinance*"). The information specified in Article 91.5.4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the financial statements.

Information about the non-financial statement

In accordance with the requirements set out in the Act on statutory auditors, we would like to inform you that the entity has prepared a non-financial statement referred to in Article 49b.1 of the Accounting Act which constitutes a separate part of the report on the activities.

We have not performed any assurance works as regards the separate non-financial report and we do not express any assurance regarding that statement.

On behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (until 18 march 2018 operating under the name Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k.) — entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors:

Marcin Diakonowicz
Key certified auditor
No. 10524

Warsaw, 10 April 2018

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 GROUP S.A.

ANNUAL STANDALONE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

CONTENTS

MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated 19 February 2009 (consolidated text, Dz. U. of 2014, item 133), the Management Board of Pfleiderer Group S.A. represents that to the best of its knowledge the annual separate financial statements for the year ended 31 December 2017 and the comparative data have been prepared in compliance with the applicable accounting policies and give a true and fair view of the Company's assets and financial results, and that the Directors' Report on operations of the Company and Capital Group Pfleiderer Group S.A. gives a fair view of its development, achievements and standing of the Company and Capital Group, including a description of the key risks and threats.

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

Tom K. Schäbinger
President of the Management Board

Nico Reiner
Member of the Management Board,
Chief Financial Officer

Dirk Hardow
Member of the Management Board,
Chief Operating Officer

Ivo Schintz
Member of the Management Board,
Chief Commercial Officer

Wrocław, 10 April 2018 r.

(all amounts in PLN thousand)

ANNUAL SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

Assets	Note	31 Dec 2017	31 Dec 2016
Property, plant and equipment	13	318	353
Investments in subsidiaries	15	2 109 775	2 109 553
Other non-current financial assets	16	75	75
Non-current loans advanced	15	108 213	103 069
Non-current assets		**2 218 381**	**2 213 050**
Inventories		-	23
Trade and other receivables	18	59 577	6 183
Income tax receivables		13	852
Cash and cash equivalents	30	4 413	4 677
Current assets		**64 003**	**11 735**
Total assets		2 282 384	2 224 785
Liabilities and Equity			
Equity			
Share capital		21 351	21 351
Share premium		625 240	625 240
Reserves		358 023	374 589
Retained earnings		438 624	230 138
Total equity	19	**1 443 238**	**1 251 318**
Liabilities			
Employee related payables	22	128	172
Deferred tax liabilities	17	3 993	184
Non-current liabilities		**4 121**	**356**
Loans and borrowings	21	639 582	812 825
Liabilities to related parties under debt securities	24	146 869	126 901
Income tax liabilities		200	-
Trade and other payables	23	47 028	30 190
Employee related payables	22	1 346	3 195
Current liabilities		**835 025**	**973 111**
Total liabilities		**839 146**	**973 467**
Total equity and liabilities		2 282 384	2 224 785

(all amounts in PLN thousand)

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Revenue		-	395 449
Cost of sales	9	-	(327 412)
Profit on sales		**-**	**68 037**
Other operating income	7	10 464	1 508
Distribution expenses	9	-	(25 895)
General and administrative expenses	9	(22 355)	(32 547)
Other operating expenses	8	(19 555)	(2 986)
Profit/(loss) from operating activities		**(31 446)**	**8 117**
Financial income		524 386	226 883
Financial costs		(73 604)	(30 132)
Net financing income	11	**450 782**	**196 751**
Profit before tax		**419 336**	**204 868**
Income tax expense	12	(3 794)	2 188
Net profit		415 542	207 056
Other comprehensive income Items that may not be reclassified to profit or loss:			
Change in measurement of net liabilities under defined employee benefits		61	-
Incentive programme		190	-
Items that are or may be reclassified to profit or loss			
Cash flow hedges – net change in fair value reclassified to current year profit or loss		-	(1 930)
Cash flow hedge – settlement of the forward hedging the purchase of shares		-	19 666
Other comprehensive income		251	17 736
Total comprehensive income for the period		415 793	224 792

(all amounts in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve funds	Other reserves	Cash flow hedge	Incentive programme	Change in measurement of net liabilities under defined employee benefits	Retained earnings	Total
1 Jan 2017 r.	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	-	-	-	-	-	190	61	-	251
Comprehensive income for the period	-	-	-	-	-	190	61	415 542	415 793
Transactions with owners recognised in equity									
Other reserve capital allocated for the own shares purchase	-	-	(250 000)	250 000	-	-	-	-	-
Own shares purchase	-		-	(152 702)	-	-	-	-	(152 702)
Dividend payment	-	-	-	-	-	-	-	(71 171)	(71 171)
Transfer of a part of net profit to statutory reserve funds	-	-	135 885	-	-	-	-	(135 885)	-
Transactions with owners recognised in equity	**-**	**-**	**(114 115)**	**97 298**	**-**	**-**	**-**	**(207 056)**	**(223 873)**
31 Dec 2017	21 351	625 240	104 604	237 298	15 870	190	61	438 624	1 443 238

(all amounts in PLN thousand)

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

(all amounts in PLN thousand)

STATEMENT OF CASH FLOWS

	Nota	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Cash flows from operating activities			
Net profit for the reporting periods		**415 542**	**207 056**
Adjustments		**(437 414)**	**(176 228)**
Depreciation and amortisation	10	35	16 511
Foreign exchanges gains		(49 472)	(5 384)
Dividend and interest for the period		(401 310)	(192 398)
Profit on the sale of intangible assets and property, plant and equipment		(2)	-
Profit on investing activities		-	(121)
Income tax expense	13	3 794	(2 188)
Changes in:			
- trade and other receivables	30	(8 907)	27 733
- inventories		23	(374)
- trade and other payables	30	20 059	(22 601)
- employee benefit obligations	30	(1 824)	370
Result on forward contracts		-	2 224
Other adjustments		190	-
Cash flows from operating activities		**(21 872)**	**30 828**
Interest received		73	89
Interest paid		(2)	(1)
Income tax paid		1 050	(676)
Net cash provided by operating activities		**(20 751)**	**30 240**
Cash flows from investing activities			
Disposal of property, plant and equipment		2	121
Dividends received		81 920	216 957
Acquisition of a subsidiary		-	(532 798)
Acquisition of intangible assets, property, plant and equipment		(4)	(23 048)
Granting of loan to the subsidiaries		-	(98 000)
Repayment of loans		-	9 500
Inflows related to settlement of derivatives		-	21 330
Net cash provided by/ used in investing activities		**81 918**	**(405 938)**
Cash flows from financing activities			
Repayment of loans and borrowings from related entities		(6 414)	-
Redemption of debt securities		(1 543 735)	(1 691 840)
Issue of debt securities		1 563 667	1 585 130
Increase in loans and borrowings from related entities		158 787	193 919
Other financial inflows		3 715	-
Other financial outflows		(10 366)	-
Dividend payments		(71 171)	(64 701)
(Shares buy-back)/ Inflows from shares issue		(152 702)	337 746
Interest paid		(3 212)	(10 862)
Net cash used in financing activities		**(61 431)**	**349 392**
Total net cash flows		**(264)**	**(26 306)**
Balance sheet change in cash, including:		**(264)**	**(26 306)**
Net cash flows		(264)	(26 306)
Cash and cash equivalent at beginning of the period		4 677	30 983
Cash at end of the period		4 413	4 677

NOTES TO ANNUAL SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

As at 31 December 2017, Pfleiderer Group S.A. was the Parent Company with respect to the following companies:

- PCF GmbH located in Neumarkt, Germany,
- Pfleiderer Polska Sp. z o.o. located in Wrocław.

Moreover, as at 31 December 2017, Pfleiderer Group S.A. held a 100% interest in entity Blitz 11–446 GmbH (50% direct interest and 50% indirectly through PCF GmbH).

These annual separate financial statements were approved by the Management Board on 10 April 2018.

The Company prepared the consolidated financial statements for the financial year ended 31 December 2017, which were approved by the Management Board on 10 April 2018.

2. THE COMPANY'S PRINCIPAL BUSINESS ACTIVITY

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

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

3. COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

As at 31 December 2017, the Company's Management Board consisted of:

- Tom K. Schäbinger — President of the Management Board
- Dirk Hardow — Member of the Management Board
- Richard Mayer — Member of the Management Board
- Ivo Schintz — Member of the Management Board

On 2 March 2017, Mr. Michael Wolff resigned from the position of President of the Management Board (effectively from 1 June 2017).

On 2 March 2017, the Supervisory Board appointed Mr. Tom K. Schäbinger to the Management Board as President of the Management Board (Chief Executive Officer), effectively from 1 June 2017 (included).

On 28 April 2017, Mr. Wojciech Gątkiewicz resigned from the position of Member of the Management Board with effect from 1 August 2017.

On 9 May 2017, the Supervisory Board appointed Mr. Ivo Schintz to the Management Board as Member of the Management Board (Chief Sales Officer), effectively from 1 August 2017 (included).

On 13 September 2017, Mr. Rafał Karcz resigned from the position of Member of the Management Board with effect from 30 September 2017.

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

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

The members of the Supervisory Board of the Company as at 31 December 2017 are as follows:

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

On 26 September 2017, the Company received the following resignations:

- Mr. Stefan Wegener resigned from the position of Member of the Supervisory Board, effective on the date the General Meeting of Shareholders of Pfleiderer Group S.A. appoints a new member of the Pfleiderer Group S.A. Supervisory Board in his place.
- Mr. Tod Kersten resigned from the position of Member of the Supervisory Board, effective on the date the General Meeting of Shareholders of Pfleiderer Group S.A. appoints a new member of the Pfleiderer Group S.A. Supervisory Board in his place.

As Mr. Stefan Wegener resigned from the position of Member of the Company's Supervisory Board and Mr. Tod Kersten from the position of a Member of the Company's Supervisory Board, as Mr. Florian Kawohl and Mr. Anthony O'Carroll were appointed to the Supervisory Board as of 18 October 2017.

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

These separate financial statements have been prepared for the year ended 31 December 2017, while the comparative financial data and notes relate to the year ended 31 December 2016.

5. BASIS OF PREPARATION

a) Statement of compliance

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

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

A number of new standards, amendments to standards and interpretations have been published but were not yet effective for annual period ending on 31 December 2017 and have not been applied in the separate financial statements. The Company intends to apply them for the periods for which they are required to be applied for the first time.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective:

- **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),
- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- A**mendments 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).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for 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"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

At the same time, the regulations endorsed in the EU still do not provide for hedge accounting for the portfolio of financial assets and liabilities, the rules of which have not been endorsed for use in the EU.

The impact of the abovementioned standards, interpretations and amendments to standards has been analysed by the Company and the detailed results of these analysis are described below.

IFRS 9 "Financial instruments"

The Company has performed the initial assessment of the impact of new IFRS 9 Financial Instruments on the separate financial statements.

<u>Classification and measurement</u>

<u>The classification and measurement of financial assets is one of the principal differences between IFRS 9 and IAS 39.</u>

Under IAS 39, classification of financial assets is mostly based on specific definitions for each category which then determines the measurement. Under IFRS 9, the classification categories are aligned with the measurement which enhances simplicity. Pursuant to the new standard, financial assets may be classified only to the following 3 categories:

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

The Company has completed an initial assessment of financial assets regarding their classification under the requirements of IFRS 9. Based on the preliminary assessment, in the Company's opinion financial assets currently classified into loans and receivables (including trade receivables) and cash will meet the criteria of the business model whose purpose is to have assets to perform contractual cash flows, which results in their valuation at amortized cost in the case of a successful passage of the cash flow test.

IFRS 16 "Leases"

The Company has completed a preliminary analysis of its operating lease agreements and has stated that in the current circumstances (ie if the lease contracts are in force as at December 31, 2017, they will be recognized as liabilities and the right of use the assets), the Company would recognize additional rights of use the assets and liabilities leasing in the amount of approx. PLN 342 thousand (if the option of recognizing assets equal to the present value of liabilities) is applied. As a result, the profit or loss of the Company will be charged to the estimated amount of PLN 180 thousand depreciation (right to use assets) and PLN 14 thousand interest on leasing liabilities. All these calculations are subject to change in accordance with the changes in lease agreements in the period from December 31, 2017 to January 1, 2019 - the date of entry of the new standard into force.

b) Basis of valuation

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

c) Assumption of continuity of operations

These annual separate financial statements have been prepared on the assumption of continuity of Company's operations.

d) Functional and presentation currency

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

e) Estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following Notes:

- Note 6, Section e (v) and f (iii) – useful lives of property, plant and equipment and intangible assets – determined based on estimated useful lives of property, plant and equipment and intangible assets and verified at least annually.
- Note 12, 17 – Corporate income tax - recognition of deferred tax assets, based on the estimate about future taxable profits against which tax losses carried forward can be used,
- Note 13 – Recoverable amount of non-financial non-current assets - if there is an indicator for impairment, the recoverable amount of non-financial non-current assets is determined as the higher of fair value reduced by cost to sell or value in use (based on discounted cash flows) estimated by applying the appropriate discount rate (cost of capital, increase rates), using the assumed discount rate and cash flow growth rate,
- Note 22 – Measurement of liabilities under defined employee benefits. Employee benefits are evaluated by an actuary. The valuation is based on certain assumptions regarding interest rates, remuneration increase, inflation rate and employee turnover ratio,
- Note 25 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments,
- Note 26 – Classification of lease agreements – the Management Board of the Company classifies lease agreements based on assessment of acquired/transferred risks and rewards associated with the assets used under a lease agreement.
- Note 28 – Contingent liabilities – recognition of contingent liabilities requires estimating the risk and probable outflow of economic benefits as well as defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period.

Fair Value Measurement

The company has a system in place to monitor the determination of fair value. The company regularly reviews important unobservable measurement parameters and adjusts the values. If information from third parties, such as brokers' quotations or valuations are used to determine fair value, the Company makes an assessment whether the evidence received meet the requirements of IFRS, including the hierarchy level where the measurement should be classified.

When determining the fair value of assets and liabilities, the Company uses, as much as possible, observable market data. Fair values are divided into the following fair value hierarchy levels, depending on the parameters used for valuation purposes:

Level 1: quoted (unadjusted) prices on active markets for identical assets and liabilities.

Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. price-based).

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

If the inputs used to determine fair value of assets or liabilities can be classified into various hierarchy levels then the fair value obtained is fully classified to the lowest fair value hierarchy level that is material for the entire measurement.

The company can move its assets and liabilities between the fair value hierarchy levels at the end of the reporting period when a change occurs.

Additional information about the assumptions made to determine fair value is provided in Note 25 – Financial Instruments.

6. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies have been applied consistently to all periods presented in these financial statement, and are consistent with the accounting policies applied in the previous year, except for the issues described below.

In 2017 temporary staff related expenses were classified to employee benefits, while in 2016 to external services.

In 2017 Supervisory Board Members' salaries were classified to other expenses by kind, while in 2016 to employee benefits expenses.

To ensure comparability of data contained in the financial statements, the comparative data has been restated as follows:

- External services costs, disclosed in 2016 in amount of PLN 43 000 thousand, were decreased by PLN 1 533 thousand, and disclosed in the hereby financial statement in amount of PLN 41 467 thousand,
- Other expenses by kind, disclosed in 2016 in amount of PLN 8 637 thousand, were increased by PLN 2 571 thousand and disclosed in the hereby financial statement in amount of PLN 11 208 thousand,
- Employee benefits disclosed in 2016 in the amount of PLN 46 511 thousand, were increased by PLN 1 533 thousand as a result of reclassification of temporary staff related costs, and were decreased by PLN 2 571 thousand as a result of reclassification of Supervisory Board Members' salaries, and disclosed in the hereby financial statements in amount of PLN 45 473 thousand.

a) Foreign currencies transactions

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

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

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

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

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

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

	31 Dec 2017	31 Dec 2016
EUR	4.1709	4.4240
USD	3.4813	4.1793

b) Financial instruments – classification and valuation

(i) Non-derivative financial instruments

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

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

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

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

Loans advanced and receivables

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

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

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

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

Financial assets available-for-sale

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

Financial liabilities valued at amortised cost

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

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

The Company's financial liabilities measured at amortised cost comprise 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

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

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

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

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

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

Cash flow hedges

If a derivative financial instrument is designated as a cash flow hedge against a specific risk connected with a recognised asset, liability or a highly probable forecast transaction which could affect profit or loss of the current period, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as a separate 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 recognised 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 recognised at acquisition cost. The Company recognises impairment losses (if any) not later than at the end of the reporting period. The value of shares is reduced by impairment losses (if any).

d) Investments in jointly controlled entities

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

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

e) Property, plant and equipment

(i) Owned property, plant and equipment

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

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, less any deductible taxes: VAT and excise tax), public charges (in the case of imports), and costs directly related to the purchase and adaptation of the asset for use, including the cost of transport, loading, unloading and storage. Rebates, discounts and other similar reductions decrease the asset acquisition cost. The production cost of property, plant and equipment or a fixed asset under construction comprises all expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was available for use in manner intended by the management (or by the end of the reporting period if the asset has not been commissioned yet), including non-deductible VAT or 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 a 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 gains arising from the fair value measurement are recognised in profit or loss of the current period to the extent that they reverse previous impairment losses on the property. The remaining part of the profit is recognised in other comprehensive income and shown in the revaluation reserve. All the losses are recognised in profit or loss for the 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. 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 Company 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 each reporting date and adjusted if appropriate.

f) Intangible assets

(i) Other intangible assets

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

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) Depreciation

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

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

Licences	2-3 years
Computer software	2 years

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

g) Inventories

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

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

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

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

h) Impairment losses

(i) Non-derivative financial assets

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

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

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

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

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

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

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

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

k) Provisions

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

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

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

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

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

l) Revenue

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

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

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

As a result of a transfer of Operational 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 financial income and costs

Financial income includes interest income on funds invested by the Company, income from dividends, gains on hedge instruments recognized 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 costs), 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 or expenses, 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 income tax is calculated in accordance with the relevant tax regulations based on taxable profit for a given period and comprises the expected tax payable in the amount which has not been paid or receivable if the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognized and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, and including any tax adjustments from previous years.

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

Deferred tax assets and 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;

(all amounts in PLN thousand)

- 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

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Profit on sale of property, plant and equipment	2	121
Compensations received	-	21
Release of unused accruals	-	291
Other operating income	10 462	1 075
Total	10 464	1 508

In 2017, other operating income of PLN 10 462 thousand include revenues from services provided to Group companies (services provided by the Company's Management Board, legal, HR, financial controlling and group accounting services).

8. OTHER OPERATING EXPENSES

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Allowance on trade receivables	-	(56)
Receivables written-off	-	(38)
Damages paid	-	(7)
Recognition of accruals	(1 756)	-
Operating foreign exchanges losses	(330)	(1 055)
Costs of a penalty imposed by OCCP	(15 958)	-
Other operating expenses	(1 511)	(1 830)
Total	(19 555)	(2 986)

(all amounts in PLN thousand)

Other operating expenses, for the most part, consist of the penalty imposed on the Company by the Office of Competition and Consumer Protection ("OCCP") and of provision for legal costs related to the appeal proceeding – for details see Note 23.

In 2017, other operating expenses of PLN 1 511 thousand included mainly Group reorganization costs under "ONE Pfleiderer" project of PLN 1 033 thousand (in 2016: PLN 1 542 thousand).

9. OPERATING EXPENSES BY NATURE

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Materials and energy	(174)	(217 451)
Depreciation and amortisation	(36)	(16 511)
External services	(5 987)	(41 467)
Taxes and charges	(130)	(4 605)
Employee benefits expenses	(11 985)	(45 473)
Cost of merchandise and raw materials sold	-	(49 632)
Other expenses by kind	(4 043)	(11 208)
Total costs	(22 355)	(386 347)
Change in inventories of finished goods, accruals and deferrals	-	(295)
Work performed by entity and capitalised	-	788
Total operating expenses	(22 355)	(385 854)
including:		
Distribution expenses	-	(25 895)
General and administrative cost	(22 355)	(32 547)
Cost of sales	-	(327 412)

In 2017 temporary staff related expenses were classified to employee benefits, while in 2016 to external services.

In 2017 the Supervisory Board Members' salaries were classified to other expenses by kind, while in 2016 to the employee benefits expenses.

To ensure comparability of data contained in the financial statements, the comparative data has been restated as follows:

- External services costs, disclosed in 2016 in amount of PLN 43 000 thousand, were decreased by PLN 1 533 thousand, and disclosed in the financial statements for 2017 in the amount of PLN 41 467 thousand,
- Other expenses by kind, disclosed in 2016 in amount of PLN 8 637 thousand, were increased by PLN 2 571 thousand and disclosed in the financial statements for 2017 in the amount of PLN 11 208 thousand,
- Employee benefits disclosed in 2016 in the amount of PLN 46 511 thousand, were increased by PLN 1 533 thousand as a result of reclassification of temporary staff related costs, and were decreased by PLN 2 571 thousand as a result of reclassification of Supervisory Board Members' salaries, and disclosed in the hereby financial statements in amount of PLN 45 473 thousand.

(all amounts in PLN thousand)

10. EMPLOYEE BENEFITS EXPENSES

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Salaries and wages	(12 626)	(36 994)
Social security contributions	(837)	(7 714)
Change in retirement benefit obligations	(24)	146
Change in unused holiday accrual	(80)	(243)
Change in bonus accrual	1 794	37
Other employee benefits	(212)	(705)
Total	(11 985)	(45 473)

In 2017 the Company started a share based payments programme for selected members of the Management Board and Supervisory Board (the "Managers"). The programme assumes that the Managers will receive options to purchase shares of Pfleiderer Group S.A. in case certain targets are met (for details please see Note 29). The programme was classified as equity settled share-based payment.

According to the principles of the programme the Members of Management Board and Supervisory Board will be granted call option to purchase shares in case certain targets specified in the contracts are met. The consideration for which the Managers will be entitled to purchase the shares (option exercise price) will be EUR 30 per share for Supervisory Board Members and EUR 40 per share for Management Board Members (for details regarding the conditions of the programme please refer to Note 29).

The fair value of the options was calculated using the Monte-Carlo Simulation model. The price of shares at grant date in the model was taken to be PLN 39.45 based on market price of the share as of 15 September 2017, the volatility estimated at 33%, which is a Bloomberg implied volatility estimate for a call option (five years to maturity, at the money) on the Pfleiderer stock at the valuation date.

The fair value of the options as at the grant date was PLN 7 558 thousand. In the year ended 31 December 2017 the Company recognised an expense related to the programme of PLN 189 thousand (in the position Salaries and wages in the above table).

11. FINANCIAL INCOME AND EXPENSES

Disclosed in profit or loss for the period:

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Interest income	5 217	4 184
Net foreign exchange gains from financing activities	49 472	4 353
Dividend income	413 318	216 957
Other financial income	56 379	1 389
Financial income	**524 386**	**226 883**
Interest expenses	(23 268)	(27 272)
Other finance cost	(50 336)	(2 860)
Financial costs	**(73 604)**	**(30 132)**
Net financing income	450 782	196 751

In 2017, interest income of PLN 5 217 thousand includes mainly interest on the loan granted to Pfleiderer MDF Grajewo Sp. z o.o. of PLN 5 144 thousand (PLN 4 095 thousand in 2016).

Net foreign exchange gains from financing activities in the amount of PLN 49 472 thousand (PLN 4 353 thousand in 2016) refer to the repayment of euro denominated loan granted by Pfleiderer Service GmbH (on 1 June 2016, Pfleiderer Service GmbH was merged with Pfleiderer GmbH), valuation of the loan from PCF GmbH granted to finance the buyback of treasury shares as well as valuation and partial repayment of the liability to Pfleiderer Service GmbH, taken over from Atlantik SA and representing proceeds from sale of Pfleiderer Group S.A. shares held by Pfleiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A. (the details of loan repayment and partial repayment of the assumed liability are described in Note 21).

In 2017, the Company received the dividend payments from the following subsidiaries:

- Pursuant to a resolution adopted by the General Meeting of Shareholders on 30 June 2017, Pfleiderer Polska Sp. z o.o. distributed PLN 773 thousand of net profit for 2016 for a dividend payment to Pfleiderer Group S.A. The dividend was paid out on 17 July 2017.
- Pursuant to a resolution adopted by the General Meeting of Shareholders on 27 June 2017, PCF GmbH distributed EUR 79 170 thousand (PLN 333 439 thousand) of net profit for 2016 for a dividend payment to Pfleiderer Group S.A. The dividend receivable in the amount of EUR 60 000 thousand was offset on 30 June 2017 with a loan liability and partly with the liability taken over from Atlantik. Part of the dividend of EUR 19 170 thousand was paid on 4 July 2017.
- On 28 December 2017, the General Meeting of the Company's Shareholders and the Board of Directors of subsidiary PCF GmbH adopted respectively a resolution on interim dividend distribution by PCF GmbH to Pfleiderer Group S.A. in the amount of EUR 9 000 thousand. The consideration was paid on 31 December 2017 pursuant to the Offsetting and Repayment Agreement, by compensating it with the principal of the loan granted to finance the buyback of treasury shares.
- The Ordinary Shareholders Meeting of Pfleiderer Polska Sp. z o.o. of 30 December 2017 adopted a resolution to distribute PLN 41 473 thousand of the 2017 net profit for payment of an interim dividend to Pfleiderer Group S.A. The interim dividend was paid on 6 February 2018.

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 sureties extended mutually by Group Companies for the previous and current financing (PLN 7 030 thousand).

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

Interest expenses in 2017 in the amount PLN 23 268 thousand (PLN 27 272 thousand in 2016) include interest on euro denominated loans due to PCF GmbH (PLN 20 957 thousand) as well as interest on commercial papers issued in the form of zero-coupon bonds (PLN 2 301 thousand) taken up by the subsidiary Pfleiderer Wieruszów Sp. z o.o.

Other financial costs in 2017 in the amount of PLN 50 336 thousand include mainly refinancing acquisition costs for the Pfleiderer Group. Other financial costs in 2016 in the amount of PLN 2 860 thousand included factoring costs (PLN 1 125 thousand), current financing package service costs (PLN 685 thousand), and the costs related to the settlement of mutual intercompany sureties granted by the Polish companies of Pfleiderer Group (PLN 981 thousand).

(all amounts in PLN thousand)

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

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Interest income on financial assets	5 217	4 184
Interest expense on financial liabilities	(23 268)	(27 272)
	(18 051)	(23 088)

12. INCOME TAX EXPENSE

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Income tax expense		
Current portion of income tax	-	(215)
Deferred income tax		
Relating to recognition and reversal of temporary differences	(3 794)	2 403
Income tax expense recognized in profit of the period	(3 794)	2 188

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:

		01 Jan 2017 – 31 Dec 2017		01 Jan 2016 – 31 Dec 2016
Profit before tax on activities outside of the Zone		419 337		204 868
Profit before tax	%	**419 337**	%	**204 868**
Tax at domestic rate	19%	79 674	19%	38 925
Non-tax-deductible expenses		3 146		187
Unrecognized deferred tax of temporary changes		-		218
Non-taxable income		(558)		(296)
Dividends		(78 530)		(41 222)
Donations		(9)		-
Tax loss		71		-
Effect on income tax	**-18,10%**	**(75 880)**	**-20,07%**	**(41 113)**
Income tax at effective tax rate	0,90%	3 794	1,07%	2 188
Income tax disclosed in profit of the period		3 794		2 188

(all amounts in PLN thousand)

13. PROPERTY, PLANT AND EQUIPMENT

Gross value	Land, buildings	Plant and equipment	Other	Assets under construction	Total
1 Jan 2016	119 989	425 631	23 640	14 556	583 816
Increases	-	-	3	27 909	27 912
Decreases	-	(9 778)	-	-	(9 778)
Transfers	1 996	9 066	891	(12 103)	(150)
Decreases resulting from contribution in kind of Operational Activity to related entity	(121 556)	(424 801)	(24 270)	(30 362)	(600 989)
31 Dec 2016	429	118	264	-	811
1 Jan 2017	429	118	264	-	811
Decreases	-	-	(108)	-	(108)
31 Dec 2017	429	118	156	-	703

Accumulated amortisation and impairment losses	Land, buildings	Plant and equipment	Other	Assets under construction	Total
1 Jan 2016	76 779	325 783	18 906	-	421 468
Depreciation and amortisation	2 100	11 481	1 679		15 260
Decreases		(9 778)			(9 778)
Decreases resulting from contribution in kind of Operational Activity to related entity	(78 767)	(327 397)	(20 326)		(426 490)
31 Dec 2016	112	89	259	-	459
1 Jan 2017	112	89	259	-	459
Depreciation and amortisation	21	13	1	-	35
Decreases	-	-	(108)	-	(108)
31 Dec 2017	133	102	152	-	386

Net value					
1 Jan 2016	**43 210**	**99 848**	**4 734**	**14 556**	**162 348**
31 Dec 2016	317	29	5	-	351
1 Jan 2017	**317**	**29**	**5**	**-**	**351**
31 Dec 2017	296	16	4	-	316

Impairment of non-financial non-current assets

The Management Board performed the analysis to identify any impairment indicators for its non-financial non-current assets as at 31 December 2017. No such indicators were found in the analysis.

All property, plant and equipment items secure the loans and borrowings.

(all amounts in PLN thousand)

14. INTANGIBLE ASSETS

Gross value	Licenses, software and other
1 Jan 2016	24 385
Decreases	(632)
Decreases resulting from contribution in kind of Operational Activity to related entity	(19 086)
Transfers	150
31 Dec 2016	4 817
1 Jan 2017	4 817
31 Dec 2017	4 817
Accumulated amortisation and impairment losses	
1 Jan 2016	20 340
Depreciation and amortisation	1 252
Decreases	(632)
Decreases resulting from contribution in kind of Operational Activity to related entity	(16 143)
31 Dec 2016	4 817
1 Jan 2017	4 817
31 Dec 2017	4 817
Net value	
1 Jan 2016	**4 045**
31 Dec 2016	-
1 Jan 2017	**-**
31 Dec 2017	-

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 Dec 2017	31 Dec 2016
Investments in subsidiaries	2 109 775	2 109 553
Non-current loans advanced to subsidiaries	108 213	103 069
	2 217 988	2 212 622

(all amounts in PLN thousand)

15.1. Investments in subsidiaries

The Company's interests in subsidiaries comprise:

	Country	Value of shares at acquisition cost	Direct ownership interest	Country	Value of shares at acquisition cost	Direct Ownership interest
		31 Dec 2017			**31 Dec 2016**	
Pfleiderer Polska Sp. z.o.o.	Poland	932 310	100%	Poland	932 310	100%
PCF GmbH	Germany	1 177 465	100%	Germany	1 177 243	100%
		2 109 775			2 109 553	

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 Dec 2017			**31 Dec 2016**	
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

Acquisition of subsidiary Pfleiderer GmbH

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

Consideration transferred:

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

- EUR 75 766 thousand (PLN 336 962 thousand) – bank transfers,
- EUR 43 587 thousand (PLN 193 919 thousand) – bank transfer financed by the loan granted by subsidiary,
- EUR 7 375 thousand (PLN 32 813 thousand) – non-cash settlement, the amount which was settled through reduction of the purchase price and representing a surplus of transaction costs in excess of the limit in the amount of EUR 11 000 million agreed with Atlantik S.A.
- EUR 134 979 thousand (PLN 600 521 thousand) – non-cash settlement, assumption of obligation of Atlantik S.A. due to Pfleiderer Service GmbH representing proceeds from sale of Pfleiderer Group S.A shares held by Pfleiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A. (based on Acquisition Agreement, dated 5 October 2015).

Acquisition cost:

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

Pfleiderer Group reorganisation in Poland:

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

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

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

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

The following actions were performed within the reorganisation:

Contribution in-kind of Operational Activity of the Company to Pfleiderer Grajewo Sp. z o.o.

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

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

Based on the aforementioned agreements, the Company transferred to Pfleiderer Grajewo Sp. z o.o. an enterprise in the meaning of Article 551 of the Civil Code (an organized part of an enterprise in the meaning of Article 4a (4) of the Corporate Income Tax Act and article 2 (27e) of the Act on Value Added Tax) designated for carrying out an economic activity, including manufacturing, marketing, sales and distribution activity of manufactured products, as well as activity supporting the Company's business (Operational Activity). All tangible and intangible assets, including all rights and obligations under the commercial contracts and other agreements concluded by the Company were included in the Operational Activity being subject to the transfer.

The agreements were concluded in connection with the adoption of the resolution of Extraordinary Shareholders Meeting of Pfleiderer Grajewo Sp. z o.o. dated 31 August 2016 on the increase of share capital of Pfleiderer Grajewo Sp. z o.o. by the amount of PLN 39 995 thousand i.e. up to the amount of PLN 40 000 thousand by way of the establishment of 799 900 new shares with a nominal value of PLN 50.00 each, which were wholly acquired by the Company and covered by a non-cash contribution in the form of the Company's Operational Activity.

Further to the transfer of Operational Activity to Pfleiderer Grajewo Sp. z o.o., starting from 1 September 2016 Pfleiderer Group S.A. ceased its operational activity and became a pure holding company.

(all amounts in PLN thousand)

The below table presents assets and liabilities (at their book values as of 31 August 2016) transferred to Pfleiderer Grajewo Sp. z o.o. within contribution in kind of Operational Activity:

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

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

Change of the name of the Company

On 30 September 2016, the change of the name and registered office of the Company as well as amendments to the Company's statute were entered to the commercial register kept for the Company. Accordingly, as of 30 September 2016, the business name of the Company was changed from Pfleiderer Grajewo S.A. to Pfleiderer Group S.A. and the registered office was changed from Grajewo to Wrocław. These changes were made pursuant to Resolution no. 9 of the General Meeting held on 29 June 2016 to change the business name and registered office of the Company, amend the Company's articles of association and to authorize the Supervisory Board to compile the consolidated text of the Company's articles of association.

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

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

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

(all amounts in PLN thousand)

Transfer of assets' ownership from Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.) and Pfleiderer MDF Grajewo Sp. z o.o. (formerly Pfleiderer MDF Sp. z o.o.) to Pfleiderer Polska Sp. z o.o.

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

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

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

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

15.2. Loans advanced to subsidiaries

The Company advanced the following loans to subsidiaries:

Long term loans	31 Dec 2017	31 Dec 2016
Loan do Pfleiderer MDF Sp. z o.o.	108 213	103 069
	108 213	103 069

The loan balance increased due to the interest capitalisation in 2017.

15.3. Impairment of investments in subsidiaries

The Management Board performed impairment test for investments in subsidiaries as at 31 December 2017.

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 2022 approved by the Management Board. Cash flows beyond five year period are extrapolated at a growth rate of 2% using the Gordon Growth Model. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. The calculation also takes into consideration the current debt of individual investments under analysis, as well as the Company's percentage share in subsidiaries' equity.

The key assumptions used to calculate the value in use as at 31 December 2017 were as follows:

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- discount rates – 8.21%;

(all amounts in PLN thousand)

- 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 discount rate applied reflects the risk arising in connection with the investments. The risk free rate is assumed to be return on 10-year government bonds.

The test did not reveal any impairment of investments in subsidiaries as at 31 December 2017.

15.4. Key financial data of subsidiaries

Period 01 Jan 2017 – 31 Dec 2017	Assets	Liabilities and provisions	Equity	Revenues	Profit/ (loss)
PCF GmbH – data in ths. PLN	2 358 761	1 609 638	749 123	35 215	45 637
Pfleiderer Polska Sp. z.o.o. – data in ths. PLN	2 079 420	326 008	1 753 412	1 395 829	108 087
	4 438 181	1 935 646	2 502 535	1 431 044	153 724

Period 01 Jan 2016 – 31 Dec 2016	Assets	Liabilities and provisions	Equity	Revenues	Profit/ (loss)
PCF GmbH – data in ths. PLN	2 761 762	1 624 537	1 137 225	22 587	345 474
Pfleiderer Polska Sp. z.o.o. – data in ths. PLN *)	1 753 656	70 134	1 683 522	-	804
	4 515 418	1 694 671	2 820 747	22 587	346 278

*) Unaudited data

16. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets	31 Dec 2017	31 Dec 2016
Available-for-sale financial assets	**75**	**75**
-shares in companies not listed on a regulated security market	75	75
	75	75

(all amounts in PLN thousand)

17. DEFERRED TAX ASSET AND LIABILITY

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

	Deferred tax assets 31.12.2017	Deferred tax liabilities 31.12.2017	Net 31.12.2017	Deferred tax assets 31.12.2016	Deferred tax liabilities 31.12.2016	Net 31.12.2016
Non-current assets						
Property, plant and equipment	1	-	1	3	-	3
Non-current loans advanced	-	83	(83)	-	79	(79)
Current assets						
Trade and other receivables	-	-	-	3	-	3
Non-current liabilities						
Employee related payables	24	-	24	33	-	33
Current liabilities						
Loans and borrowings	2 697	7 246	(4 549)	42	827	(785)
Trade and other payables	463	18	445	120	1	119
Employee related payables	169	-	169	522	-	522
Deferred income tax asset/liability	**3 354**	**7 347**	**(3 993)**	**723**	**907**	**(184)**
Deferred income tax asset and liability offset	-	(3 354)		-	(723)	
Deferred income tax liability disclosed in the statement of financial position	-	3 993		-	184	

(all amounts in PLN thousand)

Changes in temporary differences during the reporting period:

For the period 1 January – 31 December 2017

	01 Jan 2017 r.	Recognised in profit or loss for the period	Recognised in equity	31 Dec 2017 r.
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 related payables	33	6	(15)	24
Current liabilities				
Loans and borrowings	(785)	(3 764)	-	(4 549)
Trade and other payables	119	326	-	445
Employee related payables	522	(353)	-	169
	(184)	(3 794)	(15)	(3 993)
Deferred income tax related to the occurrence and reversal of temporary differences		**(3 794)**		

(all amounts in PLN thousand)

For the period 1 January - 31 December 2016

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

18. TRADE AND OTHER RECEIVABLES

	31 Dec 2017	31 Dec 2016
Trade receivables and advances from related parties	17 630	4 881
Dividend receivables from related parties	41 472	-
Current prepayments and accrued income	137	486
Current VAT receivables	200	250
Other receivables	138	566
Other receivables	59 577	6 183

On 31 August 2016, all trade receivables related to Operational Activity were transferred within contribution in-kind to Pfleiderer Grajewo Sp. z o.o.

On 31 December 2017, trade and other receivables are the result of holding activity and are fully current. Trade receivables include mainly receivables from annual settlement of services provided to Group companies (PLN 12 697 thousand, services provided by the Company’s Management Board, legal, HR, financial controlling and group accounting services) and receivables due from PCF GmbH related to transferring part of refinancing acquisition costs (PLN 4 242 thousand).

(all amounts in PLN thousand)

Trade and other receivables include the following financial receivables:

	31 Dec 2017	31 Dec 2016
Trade receivables and dividend receivables	59 102	4 881
Other receivables	138	26
Prepayments for financing costs and acquisition costs	123	352
Total	59 363	5 259

19. EQUITY

	31 Dec 2017	31 Dec 2016
Net value of share capital	21 351	21 351
Number of ordinary shares	64 701 007	64 701 007

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 2017, all shares were paid up. Shareholders have the right to dividend and are entitled to the one vote per share at the General Meeting.

Share capital issue

On 19 January 2016, the District Court in Białystok registered increase in the share capital of the Company from the amount of PLN 16 376 thousand to the amount of PLN 21 351 thousand by means of the issue of 15 077 007 series E ordinary shares of PLN 0.33 in par value each, issued pursuant to Resolution No. 3 of the Extraordinary General Shareholders Meeting of 27 July 2015 concerning the increase in the share capital of the Company by way of issuing of new shares, a public offering of newly issued shares, the exclusion of all the pre-emptive rights of the existing shareholders with respect to all the newly issued shares, the dematerialization and seeking of the admission of the rights to shares and the newly issued shares to trading on a regulated market operated by the Warsaw Stock Exchange and the amendment to the Company's statute, as well as authorizing the Supervisory Board of the Company to adopt the consolidated text of the Company's statute.

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

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

(all amounts in PLN thousand)

Shareholder structure

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

Shareholder structure as at 31 Dec 2017	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	19 183 149	29,65%	19 183 149	29,65%
Atlantik S.A.	12 474 561	19,28%	12 474 561	19,28%
Nationale-Nederlanden OFE	6 200 000	9,58%	6 200 000	9,58%
Aviva OFE Aviva BZ WBK	5 945 000	9,19%	5 945 000	9,19%
Treasury shares	3 235 050	5,00%	3 235 050	5,00%
Other shareholders	17 663 247	27,30%	17 663 247	27,30%
Total	64 701 007	100,00%	64 701 007	100,00%

According to notifications received from shareholders, in 2017 the following transactions took place on the shares of Pfleiderer Group S.A.:

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

On 20 December 2016 an agreement on sale of shares with deferred settlement was concluded. Sale of shares was settled on 12 January 2017. The buyers of shares were Yellow Saphire S.a.r.l. – 885 740 shares and Kings Forest S.a.r.l. – 355 819 shares

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

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

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

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

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

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

On 19 December 2017 Pfleiderer Group S.A. received from Stichting Lindenhaag ("Stichting"), a foundation incorporated under the laws of the Netherland, having its statutory seat in the municipality of Stichtse Vecht, the Netherlands,the notification on indirect acquisition of the shares in the Company. Pursuant to the notification Stichting became a dominant entity towards Atlantik S.A., a shareholder of the Company, and thus Stichting indirectly acquired 12 474 561 shares in the Company, which constitute 19.28% of the share capital and entitle to 12 474 561 votes at the general meeting of the Company, which constitute 19.28% of the total number of votes at the Company's general meeting.

The Company received on 15 February 2018 a notification on a decreasing of the number of shares of the Company held by Nationale-Nederlanden OFE as a result of a sale of the shares within a program of repurchase of the treasury shares announced by the Company. After the sale of the shares Nationale-Nederlanden OFE held 3,102,115 shares of the Company, which constituted 4.79% of the share capital of the Company and entitling the holder thereof to a total of 3 102 115 of the votes at the general meeting of the Company, which represents 4.79% of the overall number of votes in the Company.

(all amounts in PLN thousand)

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

Shareholder structure as at 10 Apr 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	36,47%
Atlantik S.A.	12 474 561	19,28%	12 474 561	23,72%
Nationale-Nederlanden OFE	3 102 115	4,79%	3 102 115	5,90%
Aviva OFE Aviva BZ WBK	5 945 000	9,19%	5 945 000	11,30%
Treasury shares	5 396 933	8,34%	5 945 000	11,30%
Other shareholders	18 599 249	28,75%	5 945 000	11,30%
Total	64 701 007	100,00%	52 594 825	100,00%

Announcement of a treasury shares repurchase programme

On 12 October 2017 the Company purchased 3 235 050 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 20 September 2017. In addition the treasury shares were purchased in connection with the implementation of the treasury share repurchase programme approved under resolution of the Company's Annual General Meeting of the Shareholders dated 21 June 2017. The purchase price for the treasury shares amounted to PLN 47 per one share. The total price for all of the purchased shares amounted to PLN 152 047 350.

On 7 February 2018 the Company purchased 2 150 883 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 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 total number of treasury shares purchased by the Company at the date of publication of this report is 5 396 933. The total nominal value of all purchased treasury shares is PLN 1 780 987,89, representing 8.34% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of 8.34% of the votes at the general meeting of the Company, which represents 8.34% of the overall number of votes in the Company, provided that the Company does not exercise the voting rights attached to the treasury shares.

Pursuant to resolution of the Ordinary General Meeting of Shareholders of the Company dated 21 June 2017 the shares repurchased under the programme may be: (i) offered to eligible individuals authorised to purchase the shares under an incentive programme at the Company; (ii) redeemed; or (iii) otherwise disposed of by the Management Board of the Company with a view to the needs resulting from the Company's business.

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.

19.2. Share premium

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

(all amounts in PLN thousand)

19.3. Statutory reserve funds

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

In 2017, the Company transferred PLN 135,885 thousand from its net profit for the year ended 31 December 2016 to statutory reserve funds.

To finance the purchase of shares within the buyback program described above, in reference to the resolution adopted by the General Meeting of Shareholders with regard to distribution of net profit for 2016, on 21 June 2017, 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 transfer was made to increase the reserves:

- PLN 140 000 thousand from the Company's reserve created under resolution no. 3 of the Extraordinary General Meeting of the Company's Shareholders on 22 October 2015 for the reserve capital established for the program. As such, the reserve created under the Company's Resolution No. 3 was reversed;
- PLN 250 000 thousand from the Company's statutory reserves (from the funds of this capital derived from profit) to the reserve capital established for the program.

19.4. Dividends

On 21 June 2017, the General Meeting of Shareholders passed a resolution to transfer PLN 71 171 107.70 from its net profit for the year ended 31 December 2016 for a dividend payout to the Company's shareholders in the amount of PLN 1.10 per share and to remaining part to statutory reserve funds.

20. EARNINGS PER SHARE

The calculation of earnings per share has been based on the net 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 2017 amounted to PLN 415 542 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2016 was PLN 207 056 thousand.

The calculation of diluted earnings per share has been based on the netprofit 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:

Shares number (excluding treasury shares)	Number of days	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
1 Jan	285	64 701 007	49 624 000
Equity increase 19 January 2016		-	15 077 007
Shares buy-back 12 October 2017		(3 235 050)	-
31 Dec	80	61 465 957	64 701 007
Weighted average shares number		63 991 955	63 918 321

(all amounts in PLN thousand)

Basic and diluted earnings per share:

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Basic earnings per share as at 31 December	6,49	3,24
Diluted earnings per share as at 31 December	6,49	3,24

21. LOANS AND BORROWINGS

	31 Dec 2017	31 Dec 2016
Current liabilities		
Loans from related parties	108 935	198 407
Other financial liabilities	530 647	614 418
Total	639 582	812 825

Bank loans

Until 1 August 2017, when the Group optimized and refinanced its debt, the effective agreement was the one signed on 5 October 2015 by and between Pfleiderer Group S.A. and other companies belonging to the Pfleiderer Group: PCF GmbH, Pfleiderer Service GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH, JURA Spedition GmbH, Pfleiderer Vermögensverwaltung GmbH & Co. KG, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o. and Pfleiderer Silekol Sp. z o.o., amending the revolving credit facility of 4 July 2014, taking into account the amendments introduced by the amending agreement. This Agreement is called the "Revolving Facility Agreement") with Commerzbank Aktiengesellschaft, Deutsche Bank AG Filiale Deutschlandgeschäft, KFW, BNP Paribas S.A. Niederlassung Deutschland, Powszechna Kasa Oszczędności Bank Polski S.A., Alior Bank S.A., Bank Zachodni WBK S.A., Bank Millennium S.A (mandated lead arrangers), Commerzbank International S.A. (as the credit agent "Agent") Commerzbank Aktiengesellschaft, Filiale Luxemburg (as a security agent "Security Agent").

All amendments to the Revolving Facility Agreement were concluded conditionally and entered into force on 19 January 2016 along with the completion of the reorganization of the Pfleiderer Group SA Group. With effect from 19 January 2016, Pfleiderer Group SA, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. became borrowers under the Revolving Facility Agreement (along with PCF GmbH and Pfleiderer Deutschland GmbH). Under the Revolving Facility Agreement, the original amount of the revolving facility of EUR 60 000 thousand was increased by inclusion of additional tranche in the amount of PLN 200 000 thousand. Credits facilities will be provided for use in the form of payments in EUR and PLN, and in the form of Ancillary Facilities (as defined below). The date of expiry of the agreement and its full repayment has been established as 30 April 2019. The Lender, or its affiliates, may provide a particular borrower with all or part of the unused funds under the Revolving Facility Agreement through ancillary facilities (such as overdrafts, guarantees, bonds, letters of credit, short-term loans and other loans or solutions required in a connection with the operations of Pfleiderer Group S.A. and its subsidiaries, which have been agreed between Pfleiderer Group S.A. and the particular borrower or its associated company), up to the total agreed limits amount of EUR 20 000 thousand (in case of tranches in EUR) and of PLN 120 000 thousand (in case of tranches in PLN) (Ancillary Facilities).

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

- Pfleiderer Group SA, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Bank Millennium SA, with the limit of PLN 40 000 thousand,
- Pfleiderer Group SA, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and PKO Bank Polski SA, with the limit of PLN 30 000 thousand,

- Pfleiderer Group SA, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Bank Zachodni WBK SA, with the limit of PLN 30 000 thousand,
- Pfleiderer Group SA, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and Alior Bank SA, with the limit of PLN 20 000 thousand.

These agreements allowed financing in the forms of overdrafts, guarantees and letters of credit. Ancillary Facilities were granted in tranches of PLN 200 000 thousand under the Revolving Facility Agreement.

On 11 February 2016, Pfleiderer Group SA, Pfleiderer Wieruszów Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. repaid all loans raised on the basis of the agreements concluded on 26 June 2013 with Bank Millennium SA, Alior Bank SA and Bank Zachodni WBK SA, and the securities of the credits were released. On 8 July 2016, on the basis of documents concluded on 4 July 2016, Pfleiderer Polska Sp. z o.o. and Pfleiderer Grajewo Sp. z o.o. acceded to the Revolving Facility Agreement, becoming borrowers and guarantors. On 8 July 2016, Pfleiderer Polska Sp. z o.o. and Pfleiderer Grajewo Sp. z o.o. also entered into the Guarantee Agreement as agents guaranteeing the redemption of the Bonds as part of the Eastern Segment Guarantees.

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

Senior Facility Agreement in effect from 1 August 2017

In order to optimize the Pfleiderer Group's financing structure, on 13 April 2017, Pfleiderer Group S.A., PCF GmbH and some of its German and Polish subsidiaries, Credit Suisse International, Deutsche Bank AG Branch in London, Goldman Sachs Bank of the USA and other entities operating as consortium arrangers, Wilmington Trust (London) Limited and Trigon Dom Maklerski S.A. as security agents ("Security Agent") with other entities signed a senior secured credit facility agreement in the amount of EUR 450 000 000, which was drawn down 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 amount of EUR 450 000 000 consists of the Term Loan B ("TLB") in the amount of EUR 350 000 000 (PCF GmbH) granted for a 7-year period, fully drawn down, and renewable facilities granted for a 5-year period in the amount of EUR 50 000 000 (Revolving Facility 1) and PLN 211 480 000 (Revolving Facility 2).

As at the reporting date these Revolving Facilities were not drawn down in cash, but bank guarantees were issued under Revolving Facility 2 for the total amount of PLN 4 532 thousand and letters of credit for PLN 2 792 thousand. Revolving Facility 1 was partially used in the form of bank guarantees of EUR 5 257 thousand and PLN 1 559 thousand Interests on account of cash withdrawals accrues based on EURIBOR (for drawings in Euro) plus margin, WIBOR (for drawings in PLN) plus margin, LIBOR (for drawings in other currencies) plus margin.

(all amounts in PLN thousand)

Terms and repayment schedules of the bank borrowings as at 31 December 2017 and 31 December 2016:

							31 Dec 2017			31 Dec 2016.	
Lender	Borrower	Currency	Interest rate	Repayment from	Repayment to	Credit limit	Amount drawn down	Amount available	Credit limit	Amount drawn down	Amount available
Credit facilities											
Bank Millenium 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	2016-01-19	2017-08-01 *)	-	-	-	10 000	-	10 000
Bank Millenium S.A. (Ancillary)**	Pfleiderer Group SA, 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	2016-02-04	2017-08-01 *)	-	-	-	31 441	-	31 441
Bank Zachodni WBK S.A.	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z.o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2016-01-19	2017-08-01 *)	-	-	-	20 000	-	20 000
Bank Zachodni WBK S.A. (Ancillary)	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o. Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2016-02-04	2017-08-01 *)	-	-	-	30 000	-	30 000

(all amounts in PLN thousand)

PKO Bank Polski SA	Pfleiderer Group SA, 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	2016-01-19	2017-08-01	*)	-	-	-	20 000	-	20 000
PKO Bank Polski SA (Ancillary)	Pfleiderer Group SA, Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	2016-02-04	2017-08-01	*)	-	-	-	30 000	-	30 000
Alior Bank SA	Pfleiderer Group SA, 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	2016-01-19	2017-08-01	*)	-	-	-	30 000	-	30 000
Alior Bank SA (Ancillary)	Pfleiderer Group SA, 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	2016-02-04	2017-08-01	*)	-	-	-	20 000	-	20 000
Bank Millenium S.A. **)	Pfleiderer Group SA, 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	2017-08-01	2022-08-01		79 072	-	79 072	-	-	-

(all amounts in PLN thousand)

Alior Bank SA	Pfleiderer Group SA, 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	2017-08-01	2022-08-01		78 852	-	78 852	-	-	-
Raiffeisen Bank Polska SA	Pfleiderer Group SA, 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	2017-08-01	2022-08-01		32 628	-	32 628	-	-	-
Guarantees												
Bank Millennium SA	Pfleiderer Group S.A.	PLN		2017-08-01	2022-08-01		18 928	18 928	-	-	-	-
Bank Millennium SA	Pfleiderer Group S.A.	PLN		2016-01-19	2017-02-28, 2017-09-20	*)	-	-	-	6 559	6 559	-
Limit of credit card												
Bank Millennium SA	Pfleiderer Group SA, 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		2017-08-01	2022-08-01		2 000	58	1 942	-	-	-

(all amounts in PLN thousand)

Bank Millennium SA	Pfleiderer Group SA, 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	2016-01-19	2017-08-01	*)	-	-	-	2 000	88	1 912
						211 480	18 986	192 494	200 000	6 647	193 353

* Financial restructuring took place on 1 August 2017 The initial maturity was until 30 April 2019.

** Credit limit of PLN 100 000 thousand as at 31 December 2017 was reduced by the credit guarantees used of PLN 18 928 thousand and a credit card limit of PLN 2 000 thousand. Credit limit of PLN 40 000 thousand as at 31 December 2016 was reduced by the credit guarantees used of PLN 6 559 thousand and a credit card limit of PLN 2 000 thousand.

Borrowings from subsidiaries

On 6 October 2015, Pfleiderer Group S.A. concluded the loan agreement with Pfleiderer Service GmbH in order to finance the acquisition of a share in PCF GmbH. Remittance of the loan of EUR 43 587 thousand (PLN 193 919 thousand) was made in January 2016.

On 27 June 2017, the shareholders adopted a resolution according to which the profit for 2016 generated by the subsidiary PCF GmbH, amounting to EUR 79 170 thousand, should be transferred to Pfleiderer Group S.A., provided that a portion of the amount equal to EUR 60 000 thousand will be used to satisfy the Company's liabilities and the remaining part of the consideration of EUR 19 170 thousand will be paid by 7 July 2017.

On 30 June 2017, the Company and its subsidiary PCF GmbH entered into an Offsetting and Repayment Agreement. This way, the entire amount of the loan of EUR 45 524 thousand, consisting of capitalised principal of EUR 44 837 thousand and interest accrued until 30 June 2017 in the amount of EUR 687 thousand was settled to nil.

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. 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 28 December 2017, 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 9 000 thousand to Pfleiderer Group S.A.

Pursuant to the Agreement on settlement of remuneration for intra-group security provided by Pfleiderer Group entities in respect of the joint venture to solicit external funding, effective as of 1 August 2017, the Company had a receivable from PCF GmbH in the amount of EUR 531 thousand on 31 December 2017.

On 31 December 2017, the Company and its subsidiary PCF GmbH entered into an Offsetting and Repayment Agreement. This way, the Company's receivables under the interim dividend and the settlements under intra-group security were set off with the amount of the loan principal granted to finance the buyback of treasury shares. After the settlement, on 31 December 2017 the indebtedness under the loan granted for the buyback of treasury shares was EUR 26 118 thousand (PLN 108 935 thousand).

Other financial liabilities

On 5 October 2015, in connection with acquisition of shares 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.

As at 30 June 2017, a portion of this liability in the amount of EUR 14 476 thousand was settled under the Offsetting and Repayment Agreement signed with PCF GmbH.

Pursuant to the Agreement on settlement of remuneration for intra-group security provided by Pfleiderer Group entities in respect of the joint venture to solicit external funding, effective as of 19 January 2016, the Company had a receivable from PCF GmbH in the amount of EUR 1 146 thousand on 14 December 2017.

As at 14 December 2017, a portion of this liability in the amount of EUR 1 146 thousand was set off under the Offsetting and Repayment Agreement signed with PCF GmbH.

As at 31 December 2017, the liability amount following the two set-offs described above amounted to EUR 127 226 thousand (PLN 530 647 thousand).

(all amounts in PLN thousand)

22. EMPLOYEE RELATED PAYABLES

	31 Dec 2017	31 Dec 2016
Salaries and wages	238	427
Personal income tax	246	189
Social security	194	235
Social Benefits Fund	-	(13)
Retirement benefit obligations	128	173
Unused holiday accrual	277	197
Employee bonus accrual	365	2 159
Other employee liabilities	26	-
Total	1 474	3 367
Non-current portion	128	172
Current portion	1 346	3 195

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.

(all amounts in PLN thousand)

- The default retirement age for men is 65, and for women is 60, based on the Law signed by the President of the Republic of Poland on 19 December 2016 and its transitional regulations.
- In accordance with the rules governing the award of retirement bonuses, persons terminating their employment with the Company lose their rights to any future retirement bonus and disability severance payment.
- All benefits were calculated is the beginning of each calendar year, with the assumption that all of them are regular distributed throughout the year.
- The calculations were made in PLN.
- The increase in salaries and wages was assumed at 3% per annum.
- The discount rate on future benefits was assumed at 3.24%.

Employee bonus accrual

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

23. TRADE AND OTHER PAYABLES

	31 Dec 2017	31 Dec 2016
Trade payables from third parties	1 948	6 550
Trade payables from related parties	3 434	-
Liabilities from capital expenditures	-	4
Current VAT liabilities	1 815	-
Other liabilities	39 831	23 636
Total	47 028	30 190

As at 31 December 2017 and 31 December 2016, other liabilities include in particular German tax on purchase of property in the amount of PLN 22 245 thousand. Direct acquisition of a share in PCF GmbH caused an obligation to pay German tax on purchase of property. The obligation arose from the fact that PCF GmbH directly and indirectly holds shares in Pfleiderer Deutschland GmbH and Pfleiderer Baruth GmbH, while the latter Companies own properties in Germany.

Other liabilities as at 31 December 2017 also included 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 17 418 thousand also included legal costs related to the appeal proceedings in the amount of PLN 1 460 thousand.

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.

(all amounts in PLN thousand)

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 15 957 741.83 on Pfleiderer Group S.A. and PLN 19 804 706.50 on Pfleiderer Wieruszów Sp. z o.o.

The Decision ended the antimonopoly proceedings initiated by the President of the OCCP in 2012. The decision is not legally binding. 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.

On 18 January 2018, the Company and Pfleiderer Wieruszów Sp. z o.o., in connection with the issuance of the Decision, created provisions in the total amount of PLN 38 682 078.33 (hereinafter referred to as 'Provisions'). Provisions have been established with effect on 31 December 2017. Provisions have been established 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.

Trade and other payables include the following financial liabilities:

	31 Dec 2017	31 Dec 2016
Trade payables	5 382	6 550
Liabilities due to capital expenditures		4
Other liabilities	170	713
Total	5 552	7 267

The exposure to currency and liquidity risk related to liabilities is presented in Note 25.

24. LIABILITIES TO RELATED PARTIES UNDER DEBT SECURITIES

	31 Dec 2017	31 Dec 2016
Liabilities to related parties under debt securities	146 869	126 901
Total	146 869	126 901

The liabilities under debt securities of PLN 146 869 thousand as at 31 December 2017 (31 December 2016: PLN 126 901 thousand) relate to the commercial papers issued in the form of short-term notes. The notes were purchased by a subsidiary, Pfleiderer Wieruszów Sp. z o.o.

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

25. FINANCIAL INSTRUMENTS

25.1. Objectives and methods of financial risk management applied by the Company

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

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

(all amounts in PLN thousand)

25.2. Credit risk

The objective of credit risk management is to reduce Company's losses that may result from customer 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, and arises principally from the Company's receivables from customers.

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

The total credit risk exposure was as follows:

	31 Dec 2017	31 Dec 2016
Loans advanced and receivables	127 172	107 976
Cash and cash equivalents	4 413	4 677
Total	131 585	112 653

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.

As at 31 December 2017 and 31 December 2016, the ageing structure of trade receivables was as follows:

	Gross value 31 Dec 2017	Impairment losses 31 Dec 2017
Not overdue	13 418	-
Overdue by:		
0–180 days	859	-
180–360 days	3 353	-
Total	17 630	-

	Gross value 31.12.2016	Impairment losses 31.12.2016
Not overdue	4 881	-
Total	4 881	-

Movements in the allowance for doubtful trade receivables in the financial year are presented below:

	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Balance at beginning of the period	-	3 410
Contribution in-kind of Operational Activity	-	(3 466)
Increase/Decrease of impairment losses	-	56
Balance at end of the period	-	-

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 2017.

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 – will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to reduce the unfavourable effects of changes in market risk factors on the cash flows and financial results.

(all amounts in PLN thousand)

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 2017). 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.

The total interest rate risk exposure was as follows:

	31 Dec 2017	31 Dec 2016
Fixed-rate financial instruments		
Liabilities of debt securities to related parties	146 869	126 901
Loans from subsidiaries	108 935	198 407
Other financial liabilities	530 647	614 418
	786 451	939 726
Variable-rate financial instruments		
Financial assets	108 213	103 069
	108 213	103 069

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.

	01 Jan 2017 – 31 Dec 2017		01 Jan 2016 – 31 Dec 2016	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments - impact on profit before tax	3 099	(3 099)	861	(861)

Sensitivity of fair value of fixed-rate financial instruments

The Company does not possess 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 credit risk management is to minimize losses resulting from unfavorable changes in the exchange rate. The Company monitors its foreign currency positions on an ongoing basis.

From 1 September 2016, which was the day after the contribution in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o., the Company does not burden currency risk in foreign currency trade transactions, because it does not perform any operating activity. The company is exposed to foreign exchange risk due to the recognition in the statement of financial position of receivables and liabilities expressed in foreign currencies related to the holding business activity.

(all amounts in PLN thousand)

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

The currency risk of the Company is mainly related to the euro denominated loan from subsidiary, drawn to finance the buyback of treasury shares (EUR 26 118 thousand), and other finance liabilities related to obligation taken over from Atlantik S.A. (EUR 127 226 thousand). Detailed information is presented in Note 21.

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

31 Dec 2017:	EUR	USD
Cash and cash equivalents	58	78
Trade receivables and prepayments	4 960	-
Loans and borrowings	(639 583)	-
Trade and other payables	(3 088)	-
Other liabilities	(22 245)	-
Balance-sheet exposure, gross	(659 898)	78
Forward transactions:	-	-
Net exposure under financial instruments	(659 898)	78

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

Sensitivity to currency exchange rate changes

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

31 Dec 2017 r.:	+5% changes	-5% changes
EUR	(32 995)	32 995
USD	4	(4)
Effect on profit before tax	(32 991)	32 991
Effect on net profit	(26 723)	26 723
Effect on equity	-	-

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

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

Currency	31 Dec 2017 r.:	31 Dec 2016 r.:
EUR	4,1709	4,4240
USD	3,4813	4,1793

25.4. Liquidity risk

The following are the remaining contractual maturities of financial liabilities as at 31 December 2017:

31.12.2017	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	1 948	1 948	1 948	-	-	-	-
	788 399	791 682	791 682	-	-	-	-

31.12.2016	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	198 407	199 895	199 895	-	-	-	-
Other financial liabilities	614 418	619 025	619 025	-	-	-	-
Liabilities under debt securities	126 901	127 000	127 000	-	-	-	-
Trade and other payables	7 267	7 267	7 267	-	-	-	-
	946 993	953 187	953 187	-	-	-	-

As at 31 December 2017, the Company has no debt under bank loans. As at 31 December 2017, unused credit facilities amounted to PLN 192 494 thousand. Total amount of credit limits amounts to PLN 211 480 thousand. Credit limits are available until 1 August 2022. For details, see Note 21 to these financial statements. The Company held cash of PLN 4 413 thousand.

In 2017, the Company also financed its operations by issuing short-term notes which were acquired by its subsidiary Pfleiderer Wieruszów S.A. (formerly Pfleiderer Prospan S.A.) After redemption, a new series of short-term notes is usually issued for another period, which provides a constant source of financing for the Company.

Detailed information about borrowings from subsidiaries and other financial liabilities is presented in Note 21.

25.5. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximate their carrying amounts as at 31 December 2017 and 31 December 2016.

(all amounts in PLN thousand)

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 2017, the ratio increased from 56.24% to 63.24%. The increase of the ratio results from the net profit earned by the Company in 2017 in the amount of PLN 415 542 thousand, mainly as a result of dividends received in the amount of PLN 413 318 thousand.

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

	31.12.2017	31.12.2016
Equity	1 443 238	1 251 318
Total assets	2 282 384	2 224 785
Ratio: Equity/Total assets	63,23%	56,24%

The Company manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. An increase of the Equity/Debt ratio from 129% to 172% was caused mainly by adding the 2017 net profit to equity, the declining balance of loans from subsidiaries and other financial liabilities following the settlements described in Note 23, partially offset by the loan received for the buyback of treasury shares and an increase in liabilities under debt securities.

In 2017, the Company paid dividend in the amount of PLN 71 171 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 only leased company cars under operating lease agreements. The term of all those agreements is 36 months. The last agreements will expire in May 2020.

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

	31 Dec 2017	31 Dec 2016
up to 1 year	230	250
1-5 years	170	186
Total	400	436

27. CONTRACTUAL COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

As at 31 December 2017, 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

On 13 April 2017, the Group finalized and signed refinancing agreements for senior secured credit facilities in the amount of EUR 450.0 million, consisting of:

- 7-year covenant-lite tranche B term loan of EUR 350.0 million + margin (Euribor minimum: 0.75%) and OID of 99.0, and
- 5-year revolving facility of EUR 100.0 million + margin (Euribor minimum: 0%).

The proceeds from the above facilities were used to redeem all senior secured bonds in the amount of EUR 321,684,000 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.

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, 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").

After the first drawdown of the facilities under the senior credit facility agreement of 13 April 2017, the existing collateral provided by Polish companies of the Pfleiderer Group for the receivables of Commerzbank Aktiengesellschaft, Filiale Luxemburg, acting as security agent ("Security Agent"), resulting from debt incurred under the facility agreement of 4 July 2014 (as amended) including financing up to the limit of EUR 60 million and PLN 200 million and an agreement of 4 July 2014 (as amended) between, among others, Pfleiderer Group S.A. and some of its subsidiaries as borrowers, the Security Agent and some financial institutions as original lenders of senior secured bonds issued by PCF GmbH, with the final maturity of 1 August 2017, in the total amount of EUR 321 684 thousand, was released.

To secure the new liabilities under the senior facility agreement of 13 April 2017, the following collateral was granted to 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 favour 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 favour of the Security Agent.

Collateral under the senior facility agreement of 13 April 2017 (German entities)

After the first drawdown of the facilities under the senior credit facility agreement of 13 April 2017, the existing collateral provided by German companies of the Pfleiderer Group for the receivables of Commerzbank Aktiengesellschaft, Filiale Luxemburg, acting as security agent ("Security Agent"), resulting from debt incurred under the facility agreement of 4 July 2014 (as amended) including financing up to the limit of EUR 60 million and PLN 200 million and an agreement of 4 July

2014 (as amended) between, among others, Pfleiderer Group S.A. and some of its subsidiaries as borrowers, the Security Agent and some financial institutions as original lenders of senior secured bonds issued by PCF GmbH, with the final maturity of 1 August 2017, in the total amount of EUR 321 684 thousand, was released.

To secure the new liabilities under the senior facility agreement of 13 April 2017, the following collateral was granted to the lenders:

(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.

Guarantees extended by Group companies

As at 13 April 2017, some Group companies were bound by guarantees of repayment of liabilities under the senior facility agreement in the amount of EUR 450,000,000. These entities included: 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. (formerly Pfleiderer Prospan S.A.), 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 revolving credit facility of 4 July 2014 and the senior bonds issued on 27 June 2014 were refinanced with funds obtained under the senior credit facility agreement of 13 April 2017.

Contingent liabilities

As of 31 December 2017, the Company did not identify any significant contingent liabilities.

(all amounts in PLN thousand)

29. MATERIAL RELATED-PARTY TRANSACTIONS

In the 2017 and 2016 financial year, Pfleiderer Group S.A. executed the following commercial transactions with related parties:

	01.01.2017 - 31.12.2017									
Related party	Sales of goods (finished or unfinished)	Financial income	Other operating income	Dividend income	Purchase of goods (finished and unfinished)	Receiving of services	Acquisition of fixed assets	Other operating expenses	Financial costs	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	-	-	-	-	-	-	-
Pfleiderer Grajewo Sp. z o.o.	-	1 453	299	-	-	217	-	-	-	-
PCF GmbH	-	49 593	51	371 072	-	814	-	44	21 447	-
Pfleiderer Deutschland GmbH	-	-	791	-	-	240	-	140	-	-
Total	-	61 523	13 665	413 318	-	2 321	-	184	23 799	-

(all amounts in PLN thousand)

	01.01.2016 - 31.12.2016									
Related party	Sales of goods (finished or unfinished)	Financial income	Other operating income	Dividend income	Purchase of goods (finished and unfinished)	Receiving of services	Acquisition of fixed assets	Other operating expenses	Financial costs	Capitalized costs
Pfleiderer MDF Grajewo Sp. z o.o.	54 283	4 095	1 128	-	33 583	-	204	-	-	-
Pfleiderer Wieruszów Sp. z o.o.	14 584	-	3 931	189 603	3 207	-	907	-	4 503	-
Pfleiderer Silekol Sp. z o.o.	1 020	-	370	27 354	33 964	-	7	-	-	-
Jura Polska Sp. z o.o.	706	-	99	-	15 058	-	83	-	-	-
Pfleiderer Grajewo Sp. z o.o.	-	-	871	-	204	-	-	-	-	-
Pfleiderer Service GmbH	-	-	319	-	-	-	-	-	8 680	95
PCF GmbH	-	-	5 187	-	1 686	-	-	-	-	5 714
Pfleiderer Leutkirch GmbH	-	-	-	-	-	-	454	-	-	-
Jura Speditions GmbH	-	-	-	-	3	-	42	-	-	-
Heller Holz GmbH	-	-	-	-	-	-	28	-	-	-
Pfleiderer Arnsberg GmbH	-	-	-	-	-	-	498	-	-	-
Pfleiderer Baruth GmbH	-	-	-	-	-	-	44	-	-	-
Pfleiderer Deutschland GmbH	836	-	272	-	478	-	5 534	-	14 058	-
Pfleiderer Neumarkt GmbH	2 864	-	-	-	-	-	484	-	-	-
Pfleiderer Gütersloh GmbH	-	-	-	-	625	-	389	-	-	-
Total	74 293	4 095	12 177	216 957	88 808	-	8 674	-	27 241	5 809

(all amounts in PLN thousand)

Related-party transactions as at 31 December 2017 and 31 December 2016:

a) Financial receivables, trade and other receivables:

Related party	31.12.2017			31.12.2016	
	Loans advanced	Dividends receivable	Trade receivables	Loans advanced	Trade receivables
Pfleiderer MDF Grajewo Sp. z o.o.	108 213	-	14	103 069	176
Pfleiderer Wieruszów Sp. z o.o.	-	-	141	-	2 708
Pfleiderer Polska Sp. z o.o.	-	41 472	12 350	-	162
Pfleiderer Silekol Sp. z o.o.	-	-	89	-	1 312
Jura Polska Sp. z o.o.	-	-	24	-	4
Pfleiderer Grajewo Sp. z o.o.	-	-	52	-	248
PCF GmbH	-	-	4 169	-	206
Pfleiderer Deutschland GmbH	-	-	791	-	65
Total	108 213	41 472	17 630	103 069	4 881

b) financial liabilities, trade and other payables:

Related party	31.12.2017		31.12.2016	
	Financial liabilities (borrowings and loans)	Trade receivables	Financial liabilities (borrowings and loans)	Trade receivables
Pfleiderer MDF Grajewo Sp. z o.o.	-	-	-	2 720
Pfleiderer Wieruszów Sp. z o.o.	146 869	-	126 901	658
Pfleiderer Polska Sp. z o.o.	-	1 147	-	201
Pfleiderer Silekol Sp. z o.o.	-	40	-	323
Jura Polska Sp. z o.o.	-	-	-	(18)
Pfleiderer Grajewo Sp. z o.o.	-	9	-	292
PCF GmbH	639 583	2 081	812 825	898
Pfleiderer Deutschland GmbH	-	157	-	-
Total	786 452	3 434	939 726	5 074

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.

(all amounts in PLN thousand)

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:

Name	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Tom K. Schäbinger (from 1 June 2017)	546	-
Dirk Hardow (from 1 November 2016)	508	119
Ivo Schintz (from 1 August 2017)	548	-
Richard Mayer (from 2 March 2016 till 31 March 2018)	798	987
Rafał Karcz (till 30 September 2017)	3 588	1 258
Wojciech Gątkiewicz (till 1 August 2017)	840	1 143
Michael Wolff (till 1 June 2017)	1 238	1 166
Gerd Schubert (till 1 June 2016)	-	220
Dariusz Tomaszewski (till 2 March 2016)	-	55
Total	8 066	4 948

The remuneration of Mr. Rafał Karcz for year 2017 includes an expense for severance payment (termination benefits) due to earlier termination of his contract in the amount of PLN 2 275 thousand.

As at 31 July 2017, i.e. on the date of his resignation as a Management Board Member, Mr. Wojciech Gątkiewicz held 5,400 shares of Pfleiderer Group S.A.

As at 30 September 2017, i.e. on the date of his resignation as a Management Board Member, Mr. Rafał Karcz held 3,472 shares of Pfleiderer Group S.A.

As of 31 December 2017, 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	01 Jan 2017 – 31 Dec 2017	01 Jan 2016 – 31 Dec 2016
Zbigniew Prokopowicz	1 342	843
Michael F. Keppel	400	384
Krzysztof Sędzikowski	338	274
Jan Woźniak	249	254
Stefan Wegener (till 18 October 2017)	367	379
Tod Kersten (till 18 October 2017)	124	87
Paolo G. Antonietti (till 29 June 2016)	-	213
Christoph Mikulski (till 29 June 2016)	-	106
Gerd Hammerschmidt (till 19 January 2016)	-	9
Richard Mayer (till 19 January 2016)	-	9
Jochen Schapka (till 19 January 2016)	-	9
Total	2 820	2 567

As at 31 December 2017, other members of the Pfleiderer Group S.A.'s Supervisory Board did not hold any shares in the Company.

As at 31 December 2017, 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 programme

On 20 September 2017 the Supervisory Board of the Company adopted a resolution regarding the determination of the terms of the long-term incentive programme for selected members of the Management Board of the Company (the “Management Board LTIP”).

On 18 October 2017 the Extraordinary General Meeting of Shareholders adopted a resolution regarding the determination of the terms of the long-term incentive programme for selected members of the Supervisory Board of the Company in the form determined by the Supervisory Board (the “Supervisory Board LTIP” and together with the Management Board LTIP, the “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”). The members of the Management Board are in aggregate entitled to receive 2 312 146 Call Option Shares for the exercise price per share of PLN 40. The members of the Supervisory Board are in aggregate entitled to receive 424 600 Call Option Shares for the exercise price per share of PLN 30. 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 occurance of a material breach of his obligations; or (iv) dismissal from the respective governing body of Company for reasons other than for cause or occurance 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 (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 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 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

(all amounts in PLN thousand)

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.

In the year ended 31 December 2017 the Group recognised an expense related to the LTIP in the amount of PLN 190 thousand (for details please refer to Note 10).

30. ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS

Structure of cash and cash equivalents

	31 Dec 2017	31 Dec 2016
Cash in hand and at banks	4 413	4 677
Cash disclosed in the statement of cash flows	4 413	4 677

Reconciliation in change in trade and other payables:

	31 Dec 2017	31 Dec 2016
Change in trade and other payables	16 838	(106 831)
Change in investment liabilities	4	9 411
Chang in liabilities associated with the issuance of shares	-	23 619
Change in liabilities related to the settlement of financial costs	22	-
Liabilities from arranging of new financing	-	(1 916)
Change in liabilities related to the acquisition of a subsidiary	(222)	643
German property tax	-	(22 245)
Change in liabilities from settlement of intra-group securities	2 888	(981)
Income tax liability to other companies constituting tax group	529	(529)
Transfer of liabilities of Operational Activity to Pfleiderer Grajewo Sp. z o.o.	-	76 228
	20 059	(22 601)

Reconciliation in change in trade and other receivables:

	31 Dec 2017	31 Dec 2016
Change in trade and other receivables	(53 394)	-
Change in receivables related to the settlement of securities	3 592	-
Change in accruals and deferrals related to financing	(38)	-
Change in dividends receivables	41 473	-
Income tax receivables from companies constituting tax group	(540)	-
	(8 907)	-

Reconciliation in change in employee benefits:

	31 Dec 2017	31 Dec 2016
Change in employee benefit obligations	(1 893)	-
Change in employee benefit obligations recognized as other comprehensive income	75	-
Interest portion of employee benefit obligations	(6)	-
	(1 824)	-

31. SUBSEQUENT EVENTS TO THE END OF THE REPORTING PERIOD

Change in the Management Board

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

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

Loan from a subsidiary for the buyback of treasury shares

On 2 February 2018, Pfleiderer Group S.A. received a loan from a subsidiary PCF GmbH for the buyback of treasury shares in the amount of EUR 15 000 thousand (PLN 62 256 thousand).

On 6 February 2018, Pfleiderer Group S.A. transferred an unused part of the loan to a subsidiary PCF GmbH in the amount of EUR 6 000 thousand (PLN 24 951 thousand).

Buyback of treasury shares

On 7 February 2018 the Company purchased 2 150 883 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 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 412 500.00.

The total number of treasury shares purchased by the Company at the date of publication of this report is 5 396 933. The total nominal value of all purchased treasury shares is PLN 1 780 987,89, representing 8.34% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of 8.34% of the votes at the general meeting of the Company, which represents 8.34% of the overall number of votes in the Company, provided that the Company does not exercise the voting rights attached to the treasury shares.

Redemption and issue of debt securities

On 10 January 2018 Pfleiderer Group S.A. redeemed debt securities of PLN 47 000 thousand from Pfleiderer Wieruszów Sp. z o.o. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 28 thousand.

On 10 January 2018 Pfleiderer Wieruszów Sp. z o.o. acquired from Pfleiderer Group S.A. debt securities of PLN 46 970 thousand, par value: PLN 47 000 thousand, redemption date: 24 January 2018. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 30 thousand on 24 January 2018.

On 24 January 2018 Pfleiderer Group S.A. redeemed debt securities of PLN 100 000 thousand from Pfleiderer Wieruszów Sp. z o.o. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 160 thousand.

On 24 January 2018 Pfleiderer Wieruszów Sp. z o.o. acquired from Pfleiderer Group S.A. debt securities of PLN 46 985 thousand, par value: PLN 47 000 thousand, redemption date: 31 January 2018. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 15 thousand on 31 January 2018.

On 24 January 2018 Pfleiderer Wieruszów Sp. z o.o. acquired from Pfleiderer Group S.A. debt securities of PLN 99 872 thousand, par value: PLN 100 000 thousand, redemption date: 21 February 2018. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 128 thousand on 21 February 2018.

On 31 January 2018 Pfleiderer Wieruszów Sp. z o.o. acquired from Pfleiderer Group S.A. debt securities of PLN 59 942 thousand, par value: PLN 60 000 thousand, redemption date: 21 February 2018. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 58 thousand on 21 February 2018.

On 21 February 2018 Pfleiderer Wieruszów Sp. z o.o. acquired from Pfleiderer Group S.A. debt securities of PLN 159 795 thousand, par value: PLN 160 000 thousand, redemption date: 21 March 2018. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. received interest in the amount of PLN 205 thousand on 21 March 2018.

On 21 March 2018 Pfleiderer Wieruszów Sp. z o.o. acquired from Pfleiderer Group S.A. debt securities of PLN 159 745 thousand, par value: PLN 160 000 thousand, redemption date: 25 April 2018. As a result of this transaction, Pfleiderer Wieruszów Sp. z o.o. will receive interest in the amount of PLN 255 thousand on 25 April 2018.

Appeal against decision by OCCP President

On 29 January 2018, Pfleiderer Group S.A. filed an appeal against decision of the OCCP President of 28 December 2017 with the Court of Competition and Consumer Protection.

Dividends received

On 6 February 2018, Pfleiderer Group S.A. received an interim dividend for 2017 in the amount of PLN 41 473 thousand from Pfleiderer Polska Sp. z o.o..

Tom K. Schäbinger
President of the Management Board

Nico Reiner
Member of the Management Board,
Chief Financial Officer

Dirk Hardow
Member of the Management Board,
Chief Operating Officer

Ivo Schintz
Member of the Management Board,
Chief Commercial Officer

Wrocław, 10 April 2018 r.

PFLEIDERER

INSPIRATIONS
CLOSE
TO YOU

MANAGEMENT BOARD REPORT

ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A.
AND THE CAPITAL GROUP FOR THE YEAR ENDED
31 DECEMBER 2017

TABLE OF CONTENTS

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

TOM K. SCHÄBINGER

PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is my pleasure to present a summary of the Pfleiderer Group's achievements and prospects as outlined in our 2017 annual report.

2017 was a very busy time for the Pfleiderer Group during which numerous important events transpired. A new team was appointed to the Management Board: firstly, we reviewed the overall Group's operations and subsequently, in September 2017, we presented the revised Pfleiderer Group Strategy until 2021. Execution of this strategy will enable us to maintain our leading position in the wood-based panel industry in Europe, grow shareholder value and benefits for other stakeholders in line with expectations while ensuring long-term, sustainable development.

We operate in a competitive, rapidly changing industry. Therefore, in order to ensure the Group's further development and prepare it for the challenges posed by the market, over the past year we focused on enhancing operational efficiency and driving up our production capacity utilisation. Invariably, we focused on optimising production costs and minimising downtime. We also undertook efforts to increase production capacity and implement sophisticated technologies. We consistently focus on the development of our core markets in terms of value-added products, which generate the highest margins, and which set the Pfleiderer Group apart from the competition. Our standing priorities include innovation and offering high quality products and services, while protecting the environment during production and at every stage of the supply chain.

We are striving to be the leading provider of integrated products and services valued for their quality, completeness and reliability. We are also growing through investments so that our products fully meet the market's needs. By 2021, we want to spend ca. EUR 70 million on CAPEX each year. An optimally designed investment programme will generate a rapid return on investment for the Group and will lead to operational improvements and higher cost effectiveness, which will be reflected in our financial results and margins. Our planned investment projects will help us reach our strategic goals, such as increasing consolidated sales revenue to EUR 1.2 billion and generating an EBITDA margin of at least 16% for the year ending December 31st, 2021. In 2017, the Group's capital expenditures totalled EUR 76.3 million. This included the completion or launch of strategic projects, such as the Four-Point Investment Programme in Grajewo, a production line for countertops and the Dynasteam project in Wieruszów, a grinding line at the biggest plant in Neumarkt, a varnishing line at Leutkirch and the development of Silekol.

In 2017, the Pfleiderer Group posted positive financial results. Consolidated revenue grew by 4.8%y/y (8.3% without first 19 days of 2016 for Core West Segment) to EUR 1,006 million. A material increase in commodity prices in relation to 2016 proved to be a big challenge for the Group. It is worth noting that in Q4 2017, thanks to the implementation of a new pricing policy, the Group managed to stop the erosion of margins resulting from higher prices for inputs and materials. Consequently, the gross margin in 2017 remained stable, at 23% on a year-on-year basis. A moderate increase in sales expenses was due to productivity improvement programmes. Higher selling expenses in Q4 2017, resulted from the increase in the price of materials, mainly chemicals and higher production costs, which were only partially offset by the gross margin on sales. The Group's EBITDA is below our expectations because of higher raw material prices in the first half year and totalled EUR 120 million in 2017 and was up 9.2% compared to same period in 2016 (10.3% without first 19 days of 2016 for Core West Segment). The EBITDA margin was 11.9%, a level similar to that of 2016.

In the first half of 2017, the Group successfully refinanced its debt from 2014. New debt servicing terms will help significantly reduce our financial expenses. The redemption of junior, unsecured bonds took place on August 1st, 2017. Estimated savings in financial expenses starting in 2018 will reach ca. EUR 6.5 million per year compared to the 2016-2017 period.

Our goal is to increase the Company's shareholder value consistently through sustainable growth in all business areas. We want to share the profits we generate with our shareholders, but the dividend pay-out must always be aligned to our financial capabilities and our CAPEX plans. In 2017, an in-depth analysis of the financial conditions and prospects of the Pfleiderer Group allowed the Company to pay a dividend totalling EUR 16.5 million (PLN 71.2 million), or EUR 0.25 (PLN 1.1) per share, from its 2016 profits.

We are on schedule with the execution of our share buyback program. At the end of September 2017, the Management Board of Pfleiderer Group S.A. set forth the detailed terms for the buyback of treasury shares in connection with the buyback programme approved by the General Meeting of the Company's Shareholders in June 2017. As part of the execution of this programme, on October 12th, 2017 and on February 7th and 27th, 2018, the Pfleiderer Group S.A. bought back, in three tranches, a total of 5,396,933 treasury shares, corresponding to ca. 8.34% of the total number of votes in the Company.

While executing systematically the goals set out in our development strategy, we are also focusing on environmental and social aspects. Operating nine production plants in Poland and Germany, employing over 3,500 staff, we strive to be a socially responsible corporation. By taking care of environmental aspects in our production process, we are proving our responsibility to the communities in which our plants operate. We have a special responsibility, not only as a producer, but also as an employer. Striving to guarantee the highest working standards, we consistently implement our safety and health management policy in all Group member companies. Since 2016, we have been executing the ONE HEALTH & SAFETY programme based on five pillars: leadership, communications, qualifications, organisation and standards. There is nothing more important than the health and safety of our employees because they are the backbone of our organisation. Since we want to be an attractive employer, we also place strong emphasis on raising qualifications and on the continuing professional development of our employees. Each person employed by our Group pursues an individual development plan tailored to his or her role and career path.

We endeavour to meet clients' needs and maximise their satisfaction. That is why we are constantly enhancing the attractiveness of our offer. We only collaborate with reliable suppliers who espouse the same values as Pfleiderer in their business, particularly quality, innovation and reliability. We act transparently and responsibly while providing high tech products to our clients on Europe's key markets. We care about building lasting relationships with all stakeholders, which is why, along with the execution of our strategy, we will improve and implement new practices in line with our sustainable development and corporate social responsibility policies.

The key to success is for all the people associated with the Pfleiderer Group to act as one single effective team in which every player works towards a common goal. We are building our success on a solid foundation. At this point, I would like to thank all of our stakeholders: employees for their hard work and commitment, our clients for the another year of successful cooperation, shareholders for the confidence they have placed in us, and the Supervisory Board members for their constructive dialogue and support.

Sincerely,

Tom K. Schäbinger

CEO 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 in line with our responsibility rooted in our culture based on trust.
- We have technology capabilities and cooperate closely with reliable partners to orchestrate technological change.

PFLEIDERER GROUP IN 2017 AT A GLANCE

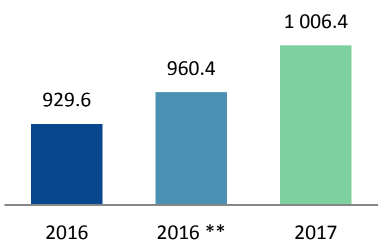
GOOD SET OF FINANCIAL RESULTS SUPPORTED BY FAVOURABLE MARKET CONDITIONS

11.9%	EBITDA margin driven by consistent improvement in operational efficiency in recent periods
10.4%	Growth in EBITDA* - to EUR 120.0 million
EUR 76.3 million	Capital expenditures - continued investments on strategic projects with an attractive payback

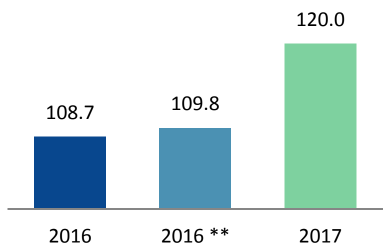
*Calculation comprised 12 months 2016 EBITDA without first 19 days of January 2016 of Core West

The 2016 and 2017 financial information constitutes of consolidated data of Pfleiderer Group S.A. Group.

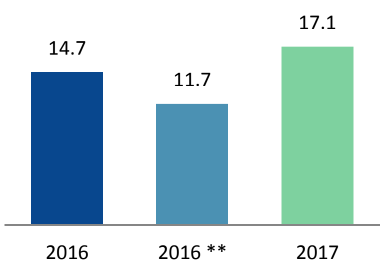
REVENUES (EUR M)



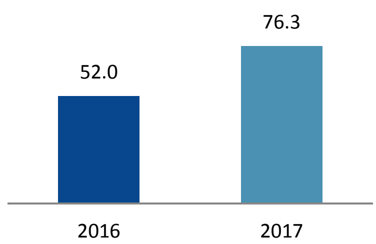
REPORTED EBITDA (EUR M)



NET PROFIT (EUR M)



CAPEX (EUR M)



EBITDA - Earnings before Interest, Tax, Depreciation and Amortization

** - Data for 12 months 2016 including the first 19 days of January 2016 of Core West

PFLEIDERERGROUP'S KEY EVENTS AND ACHIEVEMENTS IN 2017

Q4, 2017

BUYBACK

The Holding Company purchased 3 235 050 of treasury shares. The share buyback price was identical for all at PLN 47 - per share and the total price paid for all of the shares was PLN 152 million.

OCCP DECISION

The Holding Company and Pfleiderer Wieruszów Sp. z o.o. received the decision made by the President of the Office of Competition and Consumer Protection considering an anti-competitive practice. In the Decision, the President of the OCCP imposed a fine of PLN 15 957.7 ths on Pfleiderer Group S.A. and PLN 19 804.7 ths on Pfleiderer Wieruszów sp. z o.o. The Decision is not legally binding. The Group notes that the fines mentioned in the Decision are payable after the Decision becomes legally binding, that is after the appeal procedure in courts of two instances has been exhausted.

The Management filed appeals against the Decision.

Q3, 2017

THE EXTRAORDINARY GENERAL MEETING OF PFLEIDERER GROUP S.A.

On 18 October 2017 the Extraordinary GeneralMeeting of Pfleiderer Group S.A. adopted a resolution establishing the terms of the long-term incentive program for selected supervisory board members of Pfleiderer Group S.A.

CHANGES IN THE SUPERVISORY BOARD

In connection with the resignations tendered by Mr. Stefan Wegener and by Mr. Tod Kersten from being Supervisory Board members, as the Company reported in its current report dated 26 September 2017, on 18 October 2017 Mr. Florian Kawohl and Mr. Anthony O'Carroll were appointed to the Supervisory Board.

BUYBACK AS ANOTHER FORM OF PROFIT SHARING WITH SHAREHOLDERS

On 12 October 2017 the management board of Pfleiderer Group S.A. reported that the Company purchased 3 235 050 dematerialised ordinary bearer shares issued by the Company. The share buyback price was identical at PLN 47 per share and the total price paid was PLN 152 047 350. The total nominal value of these shares was PLN 1 067 566.50, representing approximately 5% of the Company's share capital. The total number of shares oferred by the shareholders under the buyback was 20 468 503. Since the total number of shares exceeded the number of shares the Company intended to buyback, i.e. 3 235 050 shares, the number of shares to be bought backfrom various shareholders was determined under the rules of reduction described in detail in section 8 of the Invitation. The reduction rate was 84.2%.

ISSUE OF COMMERCIAL PAPER

Since 1 January 2017, Pfleiderer Group S.A. has rolled over commercial paper in the form of short-term notes on 17 January 2017, 15 February 2017, 15 March 2017, 20 April 2017, 23 May 2017, 20 June 2017, 17 July 2017, 24 August 2017 and 10 October 2017 with a view to optimise the Company's financial liquidity management.

The notes were issued under the Note Issue Programme Agreement executed on 22 July 2003 with Bank PEKAO S.A. The notes were issued in accordance with the Polish Bonds Act of 29 June 1995 as PLN-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.).

DEVELOPMENT STRATEGY BY 2021 SUCCESSFULLY LAUNCHED

On 20 September 2017 the Management Board of Pfleiderer Group S.A. announced the strategy to be achieved by 2021. Thanks to its implementation Pfleiderer Group plans to grow consolidated sales revenue steadily to ca. EUR 1.2 billion for the year ended 31 December 2021. Another aim is to enhance profitability for the year ended 31 December 2021 with a consolidated EBITDA of at least 16% of sales which should also mean higher net earnings. This strategy foresees stable capital expenditures of approximately EUR 70 million per year on average (including EUR 20 million of maintenance capital expenditures p.a.) and maintaining a safe level of debt – the target net financial leverage or gearing is between 1.5 and 2. The dividend policy has not been changed and the Management Board will recommend a dividend to the General Meeting with an allocation of up to 70% of net earnings.

The key targets of the Strategy to be achieved by 2021 are presented in point 1.3 of the Management Report: Pfleiderer Group Strategy.

DETERMINATION OF THE TERMS OF THE LONG-TERM INCENTIVE PROGRAMME FOR SELECTED MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF PFLEIDERER GROUP S.A.

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"). The implementation of the Management Board LTIP is subject to the the general meeting's adoption of 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") (Current Report No. 40/2017).

CHANGES IN THE MANAGEMENT BOARD

On 13 September 2017 Mr. Rafał Karcz submitted his resignation from the Company's Management Board. His resignation took effect on 31 December 2017.

Q2, 2017

DIVIDEND PAYOUT FOR 2016

On 21 June 2017 the Ordinary General Meeting of Pfleiderer Group S.A. adopted a resolution to distribute the net earnings for the period from 1 January to 31 December 2016 as a dividend to the Company's shareholders totalling PLN 71 171 107.70 or PLN 1.10 per share. All of the Company's shares are eligible to receive the dividend, i.e. 64 701 007 shares. Additionally, the Ordinary General Meeting set the following dates: 1) dividend date (the date used to prepare the list of shareholders eligible to receive the dividend) of 5 July 2017 and 2) dividend payment date of 19 July 2017. The dividend yield was 2.5%.

The Group has a stable dividend policy with a payout of up to 70% of consolidated net earnings. Total payments to shareholders in 2016/2017 exceeded EUR 66 million.

APPOINTMENT OF AN ENTITY TO AUDIT THE FINANCIAL STATEMENTS OF THE COMPANY AND THE GROUP

On 21 June 2017 the Management Board of Pfleiderer Group S.A. announced that the Ordinary General Meeting appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw as an entity authorised to audit the Company's annual standalone financial statements and review its interim financial statements and the Group's consolidated financial statements for the periods between 1 January 2017 and 31 December 2018. The appointment complied with the binding provisions and professional standards.

SHARE BUYBACKPROGRAMME

On 25 May 2017 the Management Board of Pfleiderer Group S.A. reported establishing the terms of the share buyback programme subject to approval by the Company's Supervisory Board and General Meeting. On 25 May the Supervisory Board approved the terms of the Programme.

On 21 June 2017 the Ordinary General Meeting of Pfleiderer Group S.A. adopted a resolution approving the share buyback programme and a provision for this programme.

CHANGES IN THE MANAGEMENT BOARD

On 28 April 2017 Mr. Wojciech Gątkiewicz resigned from being the Chief Sales Officer in the Management Board with effect as of 1 August 2017. On 9 May 2017 Mr. Ivo Schintz was appointed to the Management Board as the Chief Sales Officer with effect as of 1 August 2017.

REFINANCING

On 7 April 2017, Pfleiderer Group S.A. successfully priced and allocated a EUR 350.0 million 7-year covenant-light term loan B facility carrying an interest margin of 325bps (Euribor floor: 0.75%) and 99.0 OID. The new EUR 100.0 million 5-year revolving credit facility will have an interest margin of 300bps (Euribor floor: 0%).

On 1 August 2017 Pfleiderer Group S.A. (together with its subsidiary PCF GmbH) fully redeemed the EUR 321 684 000 7.875% senior secured notes issued by PCF GmbH (formerly Pfleiderer GmbH). The redemption price was 101.969% (plus accrued and unpaid interest).

The new debt service terms will contribute to significant reduction in financing expenses starting from 2018 of approx. EUR 6.5 m compared to 2016/2017.

S&P GLOBAL RATINGS AFFIRMED ITS 'B+' LONG-TERM CORPORATE CREDIT RATING ON PFLEIDERER GROUP S.A.

On 24 March 2017, S&P Global Ratings affirmed its 'B+' long-term corporate credit rating for Pfleiderer Group S.A. and its wholly-owned Germany-based subsidiary PCF GmbH. The outlook remained positive. At the same time, S&P assigned a 'B+' issue rating to the proposed EUR 350 million senior secured loan falling due in 2024 and the EUR 100 million revolving credit facility (RCF) to be issued by PCF GmbH.

MOODY'S UPGRADED PFLEIDERER'S CFR (CORPORATE FAMILY RATING) TO BA3 WITH STABLE OUTLOOK

On 22 March 2017 the Moody's rating agency upgraded Pfleiderer's CFR (corporate family rating) from B1 to Ba3 with a stable outlook. Moody's has assigned provisional (P)Ba3 instrument ratings to the proposed EUR 350 million senior secured term loan B (TLB, 7-year) and EUR 100 million equivalent senior secured revolving credit facility (RCF, 5-year) to be raised by PCF GmbH, a direct subsidiary of Pfleiderer Group S.A.

Q1, 2017

CHANGES IN THE MANAGEMENT BOARD

On 2 March 2017 the Supervisory Board of Pfleiderer Group S.A. appointed Tom K. Schäbinger to be President and Chief Executive Officer (CEO).

Mr. Schäbinger succeeded Michael Wolff, Pfleiderer Group's President and CEO, effectively as from 1 June 2017.

KEY INFORMATION ABOUT THE GROUP

1. KEY GROUP HIGHLIGHTS

1.1. BUSINESS PROFILE – ACTIVITIES OF THE GROUP

The Pfleiderer Group, with 123 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.

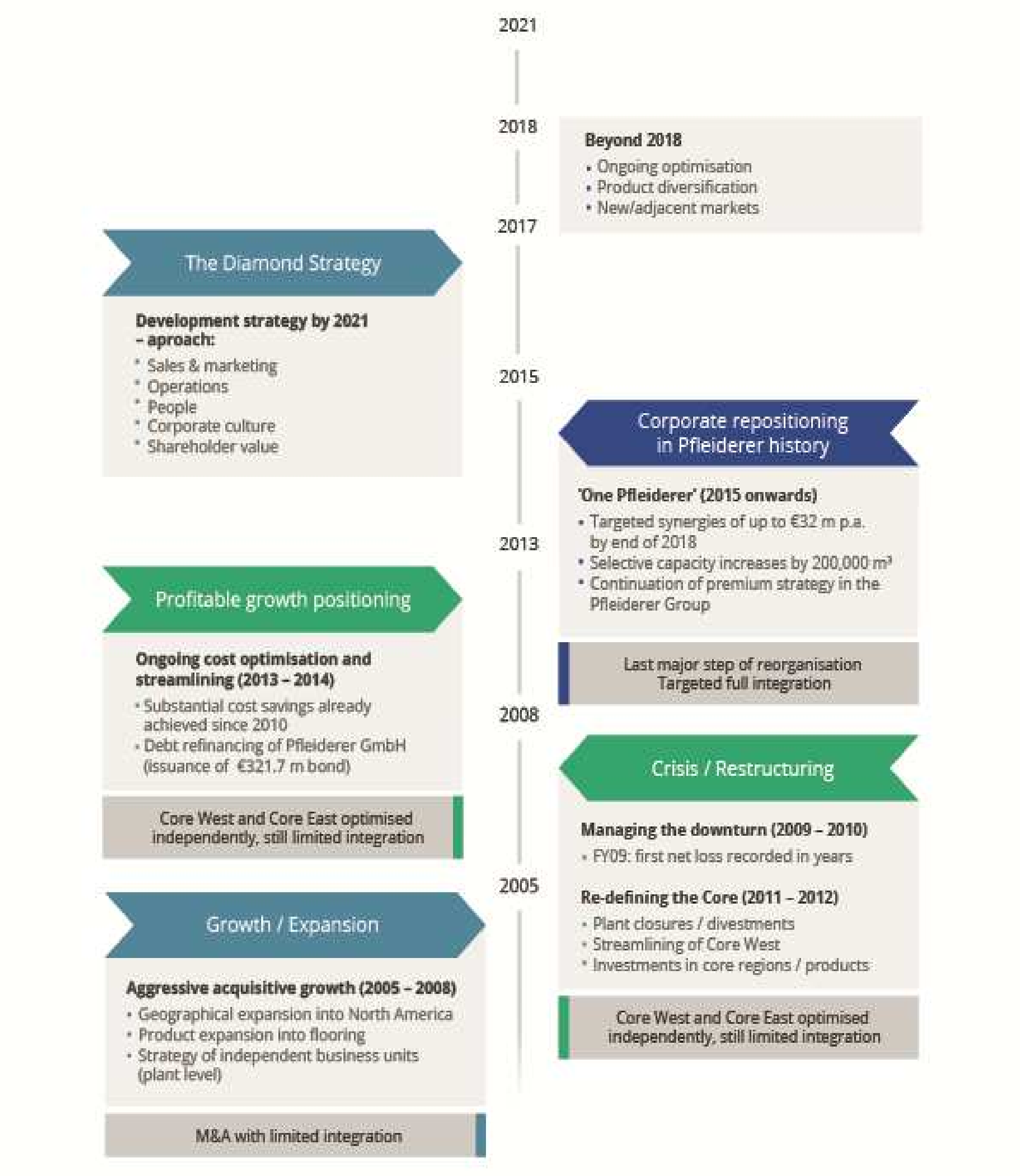
The Pfleiderer Group consists of entities with varying profiles of activity.

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
PRODUCTS		MELAMINE-FACED CHIPBOARD (MFC)	HIGH PRESSURE LAMINATES (HPL)/ELEMENTS	RAW PARTICLEBOARD (RAW PB)	MEDIUM-DENSITY /HIGH-DENSITY FIBERBOARD (MDF/HDF)	OTHER PRODUCTS: ELECTRICITY[1], RESIN SILEKOL, IMPREGNATION PAPER, EDGES AND PAPER FOILS
						
% OF SALES (2017)		62%		27%		11%
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	×	×	×	×	

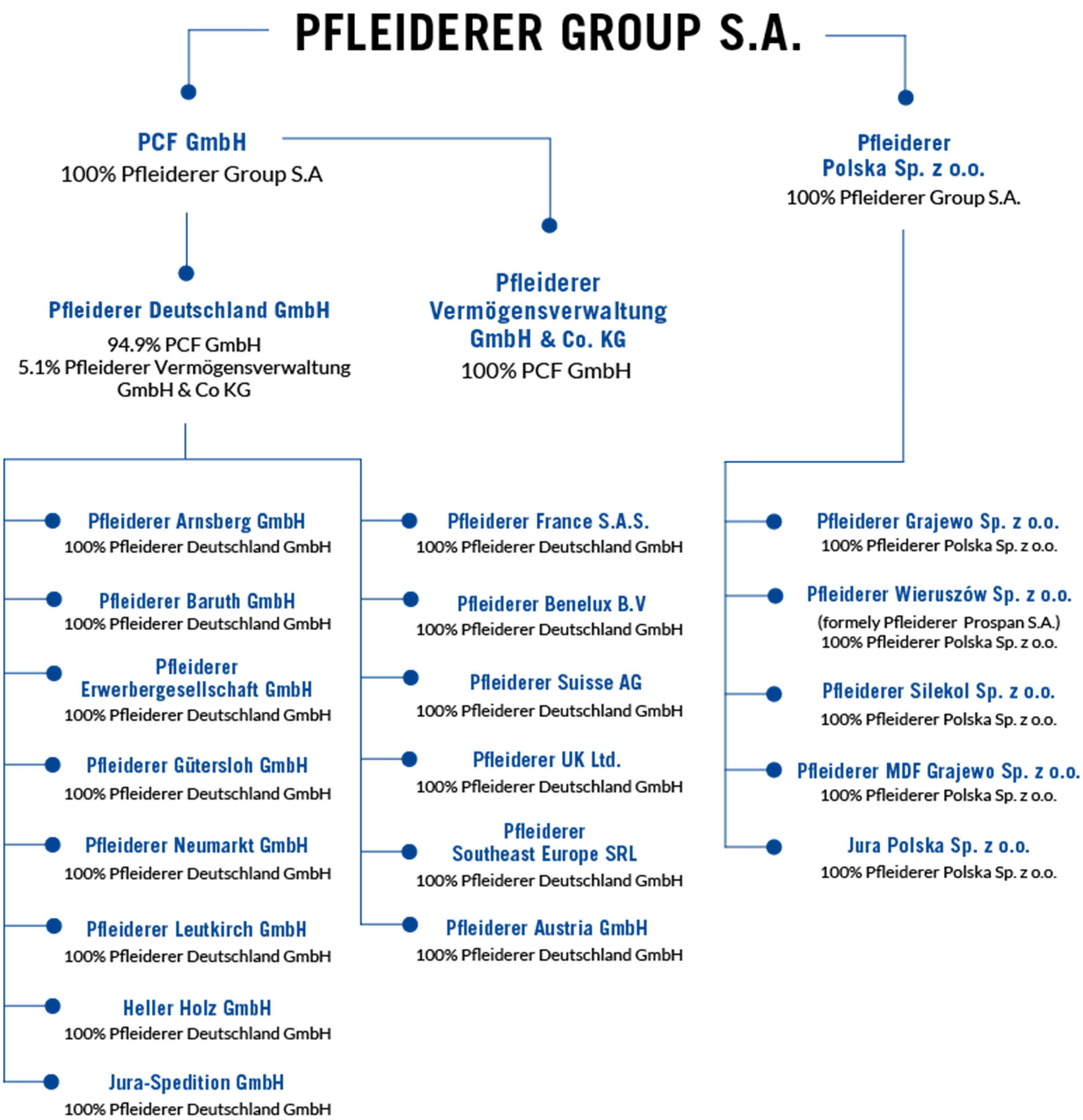
[1]Electricity generated as by-product of cogeneration plants and sold through the market
[2]Basic products relate to commodity products (i.e. raw particleboard, medium-density fiberboard and high-density fiberboard)
Source: Pfleiderer, Association of German Timber Industries (VHI)

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 10 APRIL 2018



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 2016 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 2016.

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

In accordance with the Polish Classification of Business Activities, the Parent Company's business is registered under No. 1621Z. The business activity of Pfleiderer Group S.A. is manufacture and veneering of wood and wood-based products, paper refine, domestic and 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,** Leutkirch, Germany
		Pfleiderer Arnsberg GmbH, Neumarkt, Germany
		Pfleiderer Baruth GmbH, Baruth, 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 GmbH,** Neumarkt, Germany
		Pfleiderer Vermögensverwaltungs GmbH & Co. KG, Neumarkt, Germany
		Pfleiderer Infrastrukturtechnik GmbH & Co. KG, Düsseldorf (in insolvency), Germany
		Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH, Düsseldorf (in insolvency), Germany
		Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH, Aulendorf (in liquidation), Germany
		Blitz 11-446 GmbH, Neumarkt (in liquidation), Germany

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 2017 there were no changes to the group structure except for establishing new entities in Austria and Romania, each of them acting as sales agents for Pfleiderer Deutschland GmbH.

On 31 July 2017 the transformation of Pfleiderer Prospan S.A. into Pfleiderer Wieruszów Sp. z o.o. was registered.

1.3. PFLEIDERER GROUP STRATEGY

Strategy mission – Our Direction

Smart market segmentation will drive our sales strategy and will enable a value-added customer proposition

Our salesforce will harvest **new capacity,** implement **smart pricing** and **active product portfolio management**

We will focus on **operational excellence** & **disciplined capacity** debottlenecking

Attractive shareholder value will be delivered by strong cash generation, an attractive dividend policy, possible additional share buyback programmes and open investor relations

Our culture will become more cost conscious and performance driven

On 20 September 2017 the management of Pfleiderer Group S.A. announced the Group's strategy to be achieved by 2021. The strategy focuses on the following main key pillars: intensifying sales and marketing activities for higher valued products, improving operational efficiency, human resources, improving the cost structure and a competitive management approach. The implementation of the development plan in these areas is to translate into the Group's shareholder value growth.

The main goals and objectives of the strategy published by Pfleiderer Group include the following:

Approx. EUR 1.2 b	Sales to be generated in the year ended 31 December 2021
At least 16%	EBITDA margin to be achieved in the year ended 31 December 2021
EUR 70 m p. a.	Capital expenditures (including EUR 20 million of maintenance capital expenditures p.a.)
Between 1.5 and 2	Target level of net financial leverage - maintaining a safe level of debt
Above 25%	Return on Equity
Up to 70 %	Percentage of net earnings allocated as a dividend (the dividend policy has not been altered)

The strategy adopted by the Management Board of Pfleiderer Group S.A. involves intensification of sales and marketing . The Group will focus on smart and focused customer segmentation in key markets where it operates, among others by entering new sub-segments and expanding its operations in high-potential target industries.

The Group aims to continue to grow its value-added products that generate the highest margins and differentiate Pfleiderer from the competition. The product pipeline will be expanded with new decors and surfaces inspired by new trends and created to satisfy evolving customer needs. Top quality customer service will accompany development of sophisticated product ranges.

Pfleiderer Group is now able to provide sophisticated products and customer service to key European markets through its service departments. In exports, the Group will focus on advanced solutions for key customers in the most attractive markets.

Enhanced productivity through operational efficiency

Pfleiderer Group has implemented an efficiency improvement programme to exert a positive impact on operating results. The goal is to improve all CPL, MDF and PB lines and upgrade productivity. Pfleiderer will focus on optimising production costs and de-bottlenecking.

The Group is also planning to make savings through a dedicated procurement excellence programme. In addition, operational efficiency will be supported by extending capacities and implementing advanced technologies. One of the objectives is to tap into the potential of Pfleiderer's subsidiary - Silekol, to an even greater extent, as it is a recognised manufacturer of resin adhesives and hardeners used in the timber industry.

Stable capital expenditures will support organic growth

The strategy presented by Pfleiderer Group S.A.'s Management Board calls for stable capital expenditures totalling on average EUR 70 million p.a., including EUR 20 million of maintenance CAPEX p.a. Strategic projects such as the "4-pack" investment in Grajewo, the worktop line and the Dynasteam project in Wieruszów, the sanding line at the largest plant in Neumarkt, the commissioning of the lacquering line in Leutkirch and the implementation of the resin growth strategy in Silekol aim to drive up EBITDA and margins.

FIGURE 5: PFLEIDERER STRATEGY – THE DIAMOND APPROACH

1.4. INVESTMENT PROGRAMME

In2017 Pfleiderer Group incurred EUR 76 343 thousand of capital expenditures.

TABLE 2: CAPEX 2017 – MAIN PROJECTS AT THE GROUP LEVEL

Investment	Capex	Business case	Expected outcome (per annum)
Sanding Line (Neumarkt)	EUR 6.8 million	More flexibility in production (project launched in 2017)	EUR 2.0 million EBITDA
Recycled wood	EUR 9.8 million	Higher consumption of recycled wood fibre and reducing wood cost (planned launch beginning of 2018 last investment in H1, 2018)	EUR 5.0 million EBITDA
Lacquering line (Leutkirch)	EUR 12.3 million	New functional surface technology, new high gloss and dull surfaces (launched in Q1, 2018)	EUR 9.6 million EBITDA
Commercial Growth Strategy	EUR 11.8 million	Growth of current & new products and exploring new markets; securing & increasing production capacity; development of resins and quality improvement (planned launch in H2, 2018)	EUR 6.2 million EBITDA

TABLE 3: CAPEX 2018 – MAIN PROJECTS AT THE GROUP LEVEL

Investment	Capex	Business case	Expected outcome (per annum)
Recycled wood	EUR 9.8 million	Higher consumption of recycled wood fibre and reducing wood cost (planned launch beginning of 2018, last investment in H1, 2018)	EUR 5.0 million EBITDA
Lacquering line (Leutkirch)	EUR 12.3 million	New functional surface technology, new high gloss and dull surfaces (launched in Q1, 2018)	EUR 9.6 million EBITDA
Commercial Growth Strategy	EUR 11.8 million	Growth of current & new products and exploring new markets; securing & increasing production capacity; development of resins and quality improvement (planned launch in H2, 2018)	EUR 6.2 million EBITDA
Plant concept Leutkirch	EUR 20.6 million	Increase production volume for raw particleboard. Installation of new drying area incl. new dryer and hot gas generator	EUR 8.1 million EBITDA
New KT press line MDF Grajewo	EUR 8.5 million	Increase volume of laminated particle boards in large format	EUR 3.1 million EBITDA

1.5. MARKETING ACTIVITIES IN 2017

In January 2017 the new ONE COLLECTION was launched, a unified offer to all markets with the following segments:

- Product offer consisting of Raw Boards, Melamine Faced boards as well as HPL and Elements,
- Redesigned collection (portfolio of decors) including “colour worlds”,
- New structures as well as structure strategy up to 2020,
- New communication package including newly designed booth for fairs,
- New corporate design for the entire Pfleiderer Group,
- Redesigned Marketing Services program.

In addition to this unified offer Group marketing also prepared the following:

- Unified board size for MFC (2.10m width in East),
- New centralised impregnation strategy,
- Newly defined stock programme,
- Standardized SLAs (Service Level Agreements).

Before the official market launch in January 2017, Pfleiderer organized preview events for customers and employees to present the new collection and all additional activities. Over 700 participants attended these very successful events: in Warsaw and Frankfurt in October 2016 and gave us thoroughly positive feedback.

The successful execution of the marketing mix program in recent years led to reputable institutes giving the following awards to the Pfleiderer Group:

TABLE 4: AWARDS GIVEN TO THE PFLEIDERER GROUP IN 2017

Date	Award	Product/Category	Institution
2017	Listed Company of the Year in 2016	Investor Relations	“Puls Biznesu” daily and TNS Polska
2017	Iconic Award interior innovation	Duropal HPL SolidColor XTreme	Rat für Formgebung Service GmbH
2017	pro-K Award	Duropal HPL SolidColor XTreme	pro-K Industrieverband Halbzeuge und Konsumprodukte aus Kunststoff e.V.
2017	German Design Award 2017	Duropal HPL SolidColor XTreme, Matt Lacquer, Natural Wood	Rat für Formgebung Service GmbH
2017	Red Dot Award: Product Design 2017	Duropal HPL SolidColor XTreme	red dot GmbH & Co. KG
2017	Interzum award: intelligent material & design 2017	Duropal HPL SolidColor XTreme	Interzum
2017	German Brand Award	Interior & Living	Rat für Formgebung Service GmbH

Plans and development prospects for 2018

In 2018, the Group’s marketing focus is mainly on the official rollout of ONE PFLEIDERER and ONE COLLECTION and on the introduction of PrimeBoard (high-quality lacquered surface in matt and high-gloss finishes) and Duropal HPL Compact Exterior.

Pfleiderer will take part in the following fairs:

- Forum Holzbau, Cologne
- Design District, Rotterdam
- Surface Design Show, London
- SeatradeCruiseGlobal, Ft. Lauderdale
- Holz-Handwerk, Nuernberg
- Carrefour du Bois, Nantes
- Architect@Work, Lyon

- HolzLand Expo, Nürburgring
- Architect@Work, Copenhagen
- Swissbau, Basel
- Architect@Work, Vienna
- Sicam, Pordenone
- Forum Holzbau, Garmisch

1.6. INNOVATIONS

Strategic actions in innovation continue and the midterm plan details actions until 2021.

After establishing a clear innovation process in the whole organization, the priorities and assessment criteria for new ideas presented by third parties (clients, contractors, research institutes) and insiders (employees) have been defined.

We are interested in innovative products and optimising existing products. However, above all, we focus on co-operation projects with our customers. Without a full understanding of customer needs, we will not be able to create products to meet their needs.

Therefore, we organise customer workshops to identify their needs and generate ideas and afterwards, we design new products.

By collaborating on new products with Nobilia in 2017, we introduced a worktop with improved features, especially moisture resistance, allowing it to be safely installed in kitchen areas exposed to water (cooking area / sink).

This product received an award for the Kitchen Innovation of the Year in 2018 and the Golden Award for the best in the category from consumers and a jury of experts from LifeCare Initiative of Munich for functionality, innovation, product advantages, design and material properties.

In parallel, actions to encourage employees to submit new ideas and innovative solutions have been taken.

In the coming year, a Platform is to be rolled out to gather ideas and manage innovation projects. This systematic tool will be available to all employees to improve the innovation process.

The annual budget for external expenses related to project expenses and actions supporting innovation is planned at EUR 800 thousand.

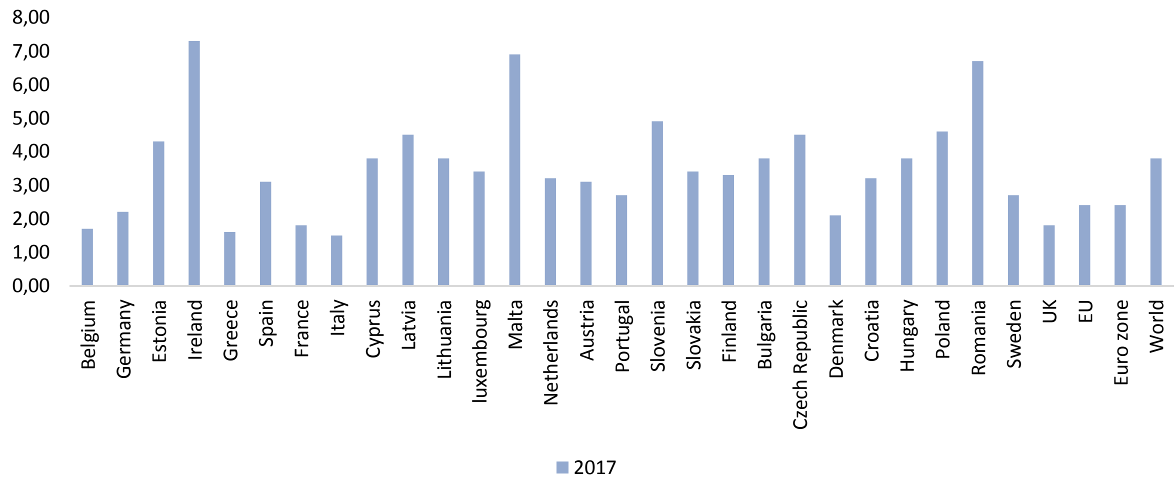
We believe that only with insight into customer needs will be able to create products perfectly responding to their needs. Sometimes limited optimisation of an existing product is sufficient while other times a completely new product should be created. The crucial point is delivering the best value proposition providing solutions to customers.

1.7. MARKET POSITION AND CONSTRUCTION MARKET OVERVIEW

Macroeconomic situation in 2017

According to the European Commission's latest forecasts[1] growth rates for the euro area and the EU beat expectations last year as the transition from economic recovery to expansion continues. The euro area and EU economies are estimated to have grown by 2.4% in 2017, the fastest pace in a decade. This robust performance is set to continue in 2018 and 2019 with growth of 2.3% and 2.0% respectively in the euro area and EU. The 2.4% GDP growth now estimated for 2017 is above November's projections of 2.2% for the euro area and 2.3% for the EU (Autumn Economic Forecast). The growth forecasts for 2018 and 2019 have also been raised since November for both the euro area and EU economies: from 2.1% to 2.3% for this year and from 1.9% to 2.0% for 2019. This is a result of both stronger cyclical momentum in Europe, where labour markets continue to improve and economic sentiment is particularly high, and a stronger than expected pick-up in global economic activity and trade. Strong demand, high capacity utilisation and supportive financing conditions are set to favour investment over the forecast horizon.

FIGURE 6: GDP GROWTH IN 2017 (Y/Y IN %)



Source: European Commission, European Economic Forecast Winter 2018

Germany's GDP growth reached a six-year high of 2.2% in 2017, driven by strong private consumption, higher investment and growing foreign demand. Equipment investment has overcome the soft patch it experienced in 2016 and is likely to strengthen further over the course of 2018 amid favourable demand prospects. The steady rise in capacity utilisation rates should also spur renewal and expansion of the capital stock. The strong growth in housing investment recorded in the first two quarters of 2017 is expected to moderate somewhat but continue, according to data on residential construction permits. Private consumption growth fuelled by the strong labour market, favourable world trade developments and economic growth in the rest of the euro area should continue to sustain the upswing. Overall, real GDP growth is expected to strengthen to 2.3% in 2018 and remain above 2% in 2019.

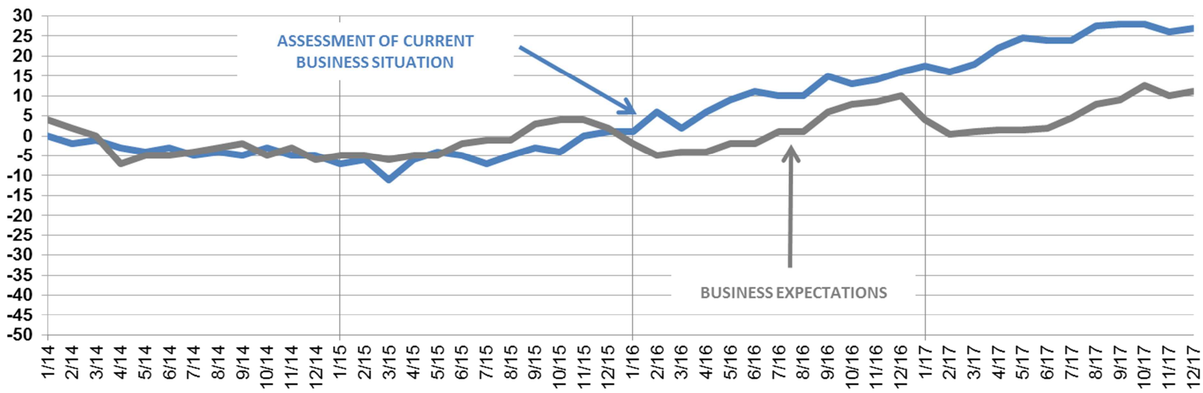
In Poland economic growth remained buoyant in 2017. GDP grew by an estimated 4.6% in 2017 as a whole. Private consumption was the main growth driver. Having risen in the second half of the year, investment activity partly rebounded from the decline in 2016. Public investment is expected to have recovered from a 2016 slump, while private investment trends varied across sectors. Export and import activity was volatile in the first two quarters of 2017 but strengthened in the second half of the year. Real GDP growth is forecast to remain strong at 4.2% in 2018 and 3.6% in 2019. The growth composition is expected to remain similar to 2017, with domestic demand providing the strongest contribution. Private consumption is projected to be supported by faster wage growth and record-high consumer confidence. Investment is expected to continue a gradual recovery, driven by a strong rebound of public investment, especially in 2018.

[1] Winter 2018 Economic Foreast, EuroCom

Business climate in the construction industry

The German construction industry in 2017 witnessed growth evidenced by the business climate index, which has been consistently high for years. Its prospects in upcoming months are less robust though still better than in 2016. At the end of 2017 the trend has stabilised.

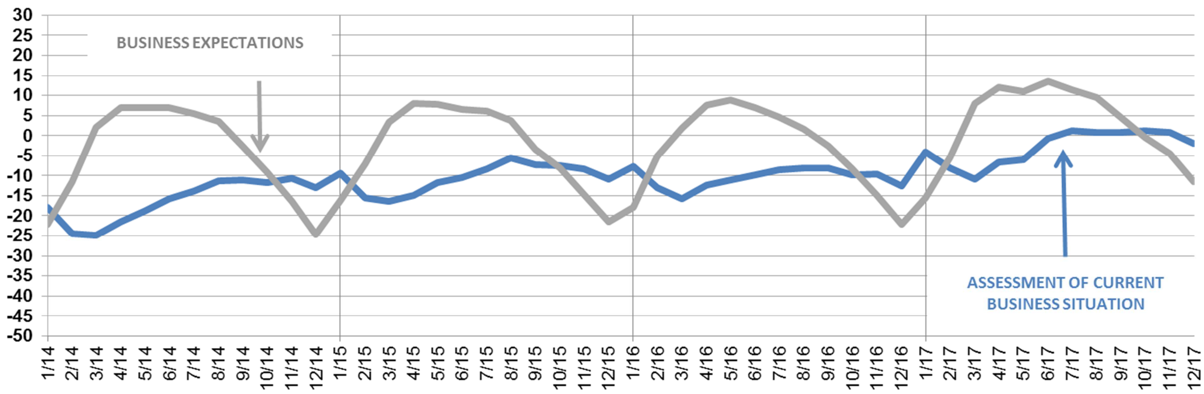
FIGURE 7: BUSINESS CLIMATE IN THE CONSTRUCTION INDUSTRY – GERMANY



Source: own calculation based on ifo

In Poland, 2017 also saw an improving business climate index despite the fact that at yearend the outlook for the construction industry deteriorated, especially in terms of prospects. Nevertheless, this trend is seasonal as the sentiment among construction sector entities is expected to improve in Q2 2018.

FIGURE 8: BUSINESS CLIMATE IN THE CONSTRUCTION INDUSTRY – POLAND



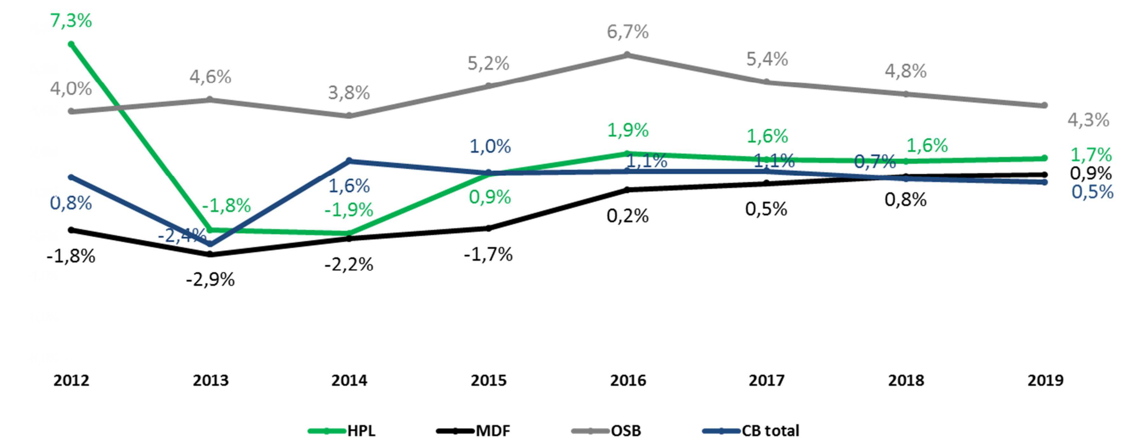
Source: own calculation based on GUS

Market dynamic

Pfleiderer's position strongly relies on the furniture and construction industries. The construction industry consists of residential and non-residential developments as well as interior design. The reference points for its portfolio are the chipboard, laminate, MDF and OSB markets. Until 2019 all these markets are expected to follow a positive trend.

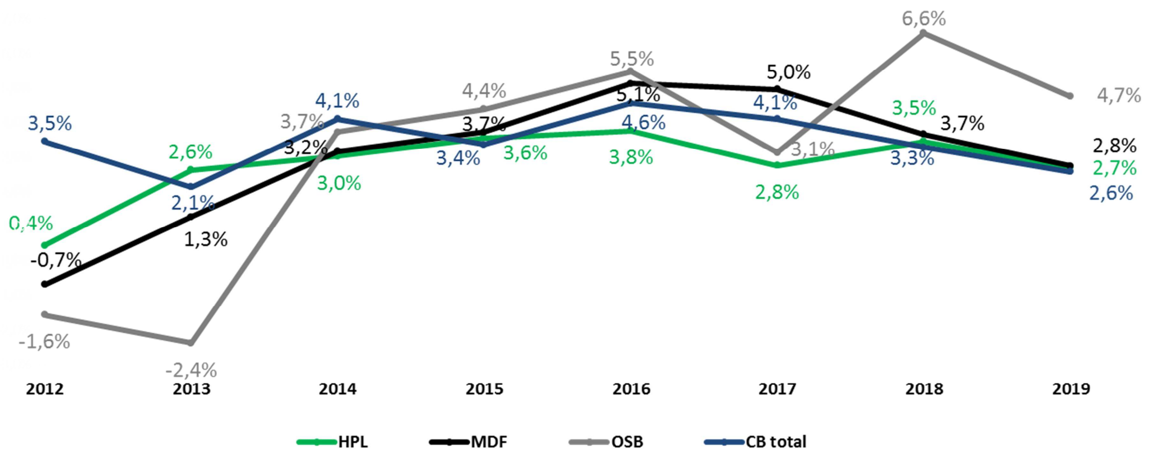
The OSB market features the highest CAGR. Moderate positive change is expected in the HPL market in both regions and in the MDF/HDF and chipboard markets in Poland.

FIGURE 9: MARKET SIZE GROWTH RATE (VOLUME) – DACH



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

FIGURE 10: MARKET SIZE GROWTH RATE (VOLUME) – POLAND

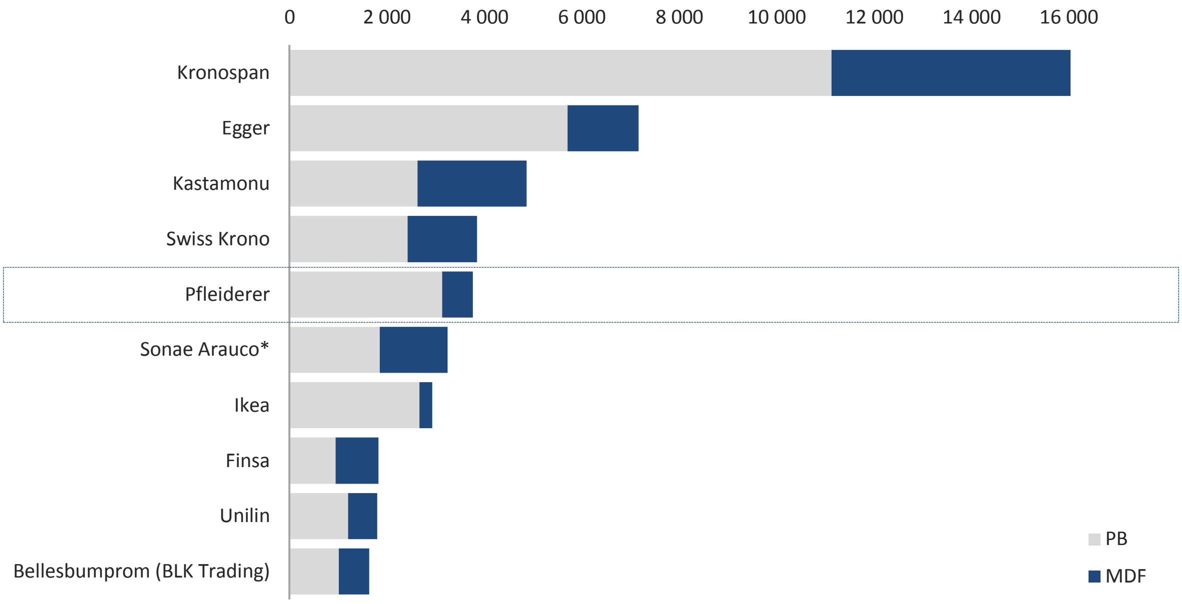


Source: own calculation based on construction& furniture market data provider

Production capacity position in Europe*

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

FIGURE 11: PRODUCTION CAPACITY IN EUROPE* – TOP 10 PLAYERS x 1 000 m3



***including Russia & Turkey;**

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

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

Construction market development perspective

The magnitude of the construction business in our core markets, namely in Poland and the DACH countries, is expected to grow. The DACH market is bigger while the Polish market is growing at a faster pace (compared to other European countries, Poland is one of the fastest growing markets). Till 2019 one can expect a compound annual growth rate of 0.4% for DACH and 3.8% for Poland.

TABLE 5: COMPOUNT ANNUAL GROWTH RATE IN 2017-2019

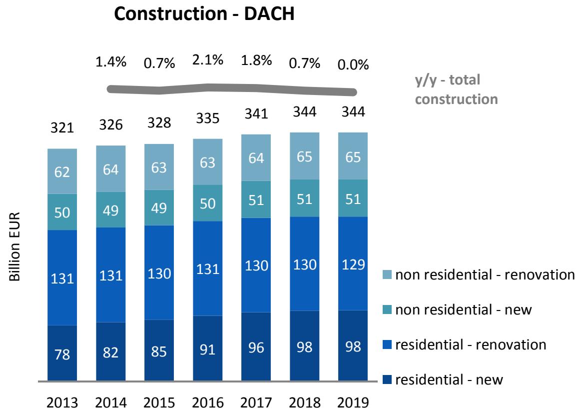
CAGR 2017-2019			
	Total	**Residential**	**Non-residential**
Poland	**3.8%**	**4.2%**	**3.5%**
DACH	**0.4%**	**0.4%**	**0.3%**
Germany	**0.0%**	**0.3%**	**-0.5%**
Austria	**1.3%**	**1.3%**	**1.4%**
Switzerland	**1.5%**	**0.3%**	**3.1%**
France	**3.2%**	**3.6%**	**2.7%**
Italy	**1.8%**	**1.6%**	**2.0%**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

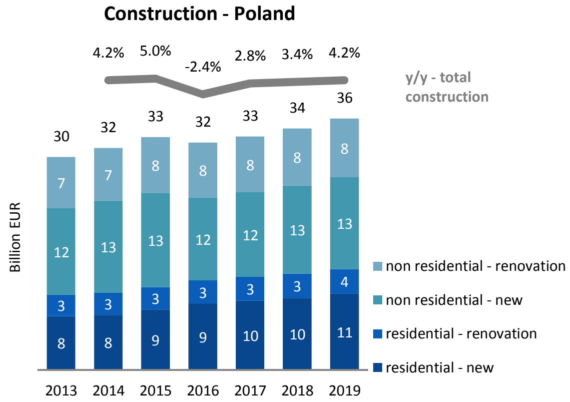
Source: own calculation based on construction market data provider

Drivers of core construction markets – DACH and Poland

In the DACH countries the construction market is driven more by residential construction. Poland is driven mostly by non-residential buildings. The markets in German-speaking countries see a greater preponderance of renovation (in residential and non-residential buildings). In Poland new buildings account for a bigger chunk of the construction business

FIGURE 12: TOTAL CONSTRUCTION – DACH AND POLAND

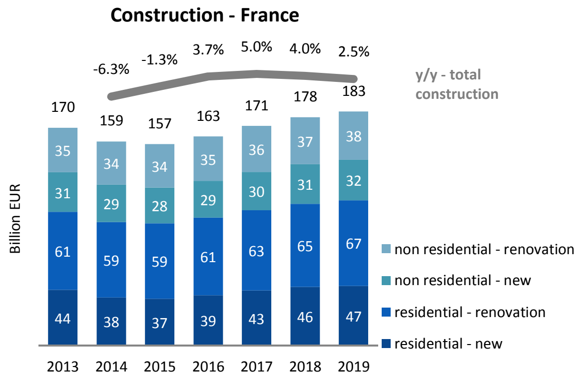


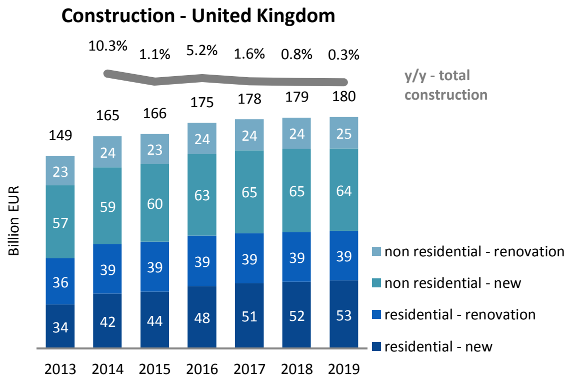


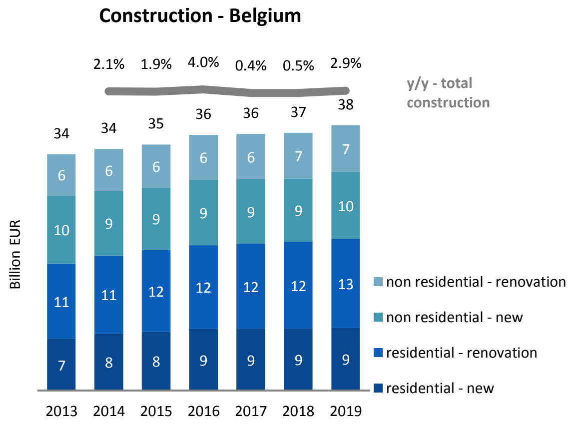
Drivers of construction markets – other countries

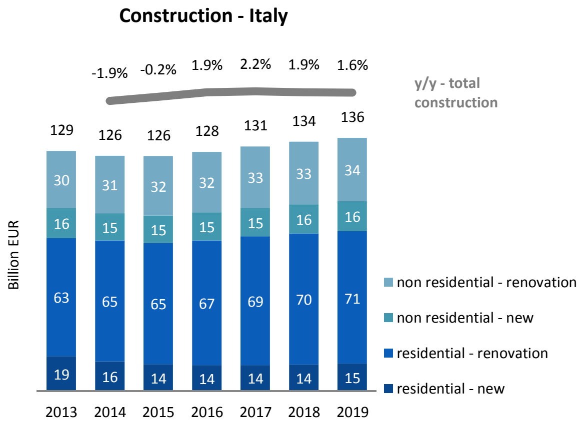
The construction market in France, Italy, the Netherlands and Belgium is driven more by residential building and especially renovation. The construction business in the UK almost has an even distribution among residential and non-residential buildings, though, similarly to Poland, new buildings play a bigger role.

FIGURE 13: TOTAL CONSTRUCTION – OTHER COUNTRIES









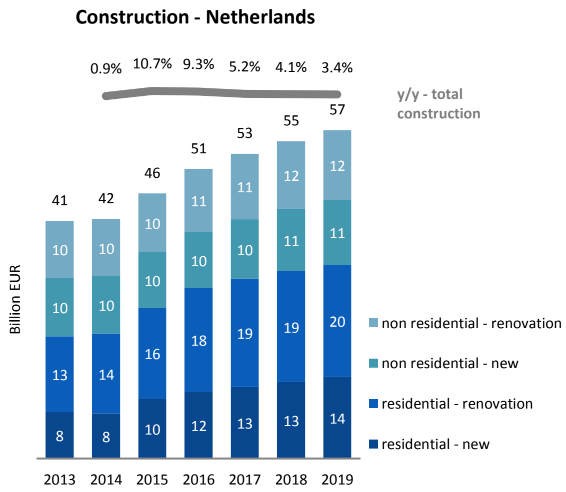
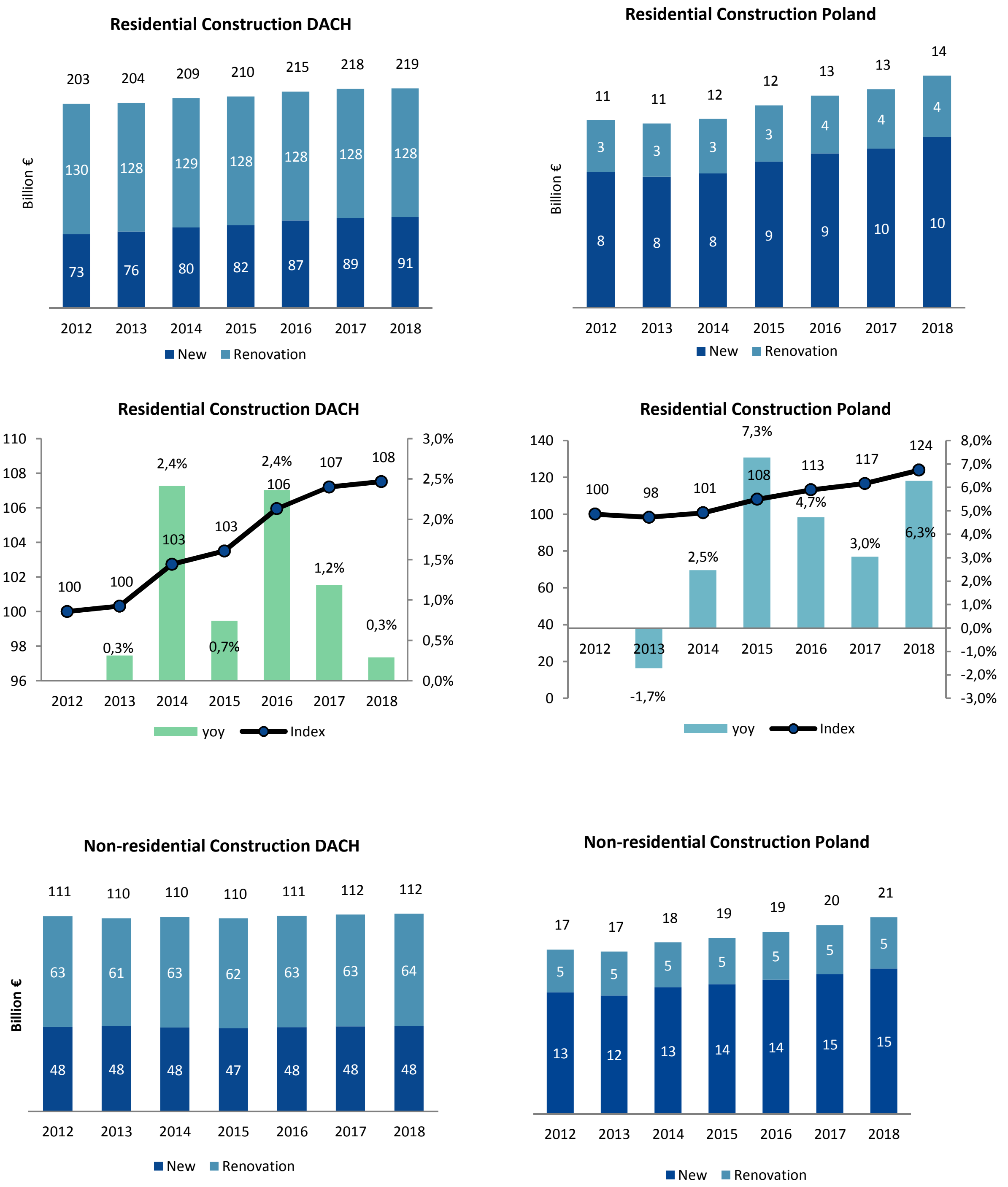


FIGURE 14: RESIDENTIAL AND NON-RESIDENTIAL CONSTRUCTION



Source: Reliable construction market data provider

1.8. 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. bears all the burdens related to the 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.

1.9. RISK MANAGEMENT

All business activity is inextricably linked with risk. For this reason, effective risk management is an important factor for the success of any effort to safeguard enterprise value sustainably. 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 Group confronts uncertainties and constant change in 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 Parent Company's management and Supervisory Board are regularly advised 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, whose amounts could far exceed damages 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 defences and court proceedings based 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.

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 EEG relief for hardship cases will cease to apply in the future is considered to be conceivable (after measures) and the loss could be grave. This risk is countered by obtaining external expertise and implementing internal measures to ensure that stricter conditions are met.

Tax risks:

For cross border supplies and services between affiliated companies prices have to be arm’s length . The companies of the Pfleiderer Group have to document this in Transfer Price Documentation. The companies of the Pfleiderer Group located in Germany can choose the transfer price method as well as the margin. But tax audits in the foreign countries and Germany may establish that the chosen transfer pricing method or margin is incorrect. Following this, taxes could be higher on the allocated costs for supplies and services between affiliated companies. This would lead to higher taxes and therefore represents a risk and the potential loss amount could be significant. The risk’s occurrence is conceivable.

The Western European segment is subject to certain tax risks. In the light of the change in shareholders in 2012, there are identified risks with regard to the amount of tax loss utilized by the Group. Due to the acquisition of all shares in PCF GmbH (formerly Pfleiderer AG) by Atlantik S.A. in November 2012, tax losses generated by the German subsidiaries in 2012 may not be utilized in full. According to published BMF [Bundesministerium der Finanzen] letter this is also valid for tax groups. Till now it is not clear, if Pfleiderer can deduct the whole current losses in 2012 due to a statutory exemption. But it cannot be ruled out that the fiscal authorities will reject the position taken by Pfleiderer Deutschland GmbH, which could in turn lead to an assessment requiring payments of tax arrears. The risk is estimated to be medium and the probability of occurrence seems to be occasional.

PCF GmbH is subject to a tax risk regarding the restructuring gain incurred in 2012 in connection with the insolvency plan. The tax treatment of the restructuring gain may be affected by a judgment of the Federal Fiscal High Court published on 7 February 2017 (GrS 1/15). According to the decision, the decree of the Federal Ministry of Finance dated 27 March, 2003 (so called “Sanierungserlass”) which ensures a preferential treatment of the restructuring gain is not correct. This decision may lead to uncertainty regarding the possibility of receiving a waiver from the tax authorities for any taxes due on the restructuring gain to the extent that PCF is not protected by binding rulings issued by the competent authorities. The potential loss is assessed with medium and the probability of occurrence seems to be conceivable.

In 2014 PCF GmbH (and its subsidiaries) recognised valuation allowances on receivables to the “Non Core” companies of the former Pfleiderer Group in respect of foreign currency gains recognised on these receivables and treated these valuation allowances as tax deductible. It cannot be ruled out that the fiscal authorities will reject the position taken by PCF GmbH, which could lead to additional tax payments, which might be low. The probability of occurrence is on a case-by-case basis.

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 unfavourable Group development. 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 reorganising its R&D activities and improving its innovation culture.

A fairly significant portion of our product range relates to commodities featuring high price volatility. This risk is driven by the ability to substitute products, rising material costs, and the disappearance of international sales markets. Especially the current situation in which new competitors enter the market/competitors increase their capacities and are demanding wood, propels the wood price upward. The potential loss related to this risk is low, but it does occur. Furthermore, the wood price is also affected by customers from the co-generation industry. As they do not only burn forest waste, but also fully valuable wood like sawmill residue, pulpwood or middle-sized logs, great competition is posed by power plants. The potential loss is estimated to be low and more likely than unlikely to occur.

The Group's rising costs lead to the necessity of raising sales prices to secure margins. As price hikes are only partially feasible due to the market situation and the effects will be delayed, the Group faces a significant risk which is very probable. Furthermore, it cannot be ruled out that reopening closed plants or expansion of capacity by other competitors may lead to an adverse development of sales prices. This risk is considered to be significant and conceivable. To counter these risks, emergency plans are drawn up to anticipate the Company's reactions to different scenarios

Environmental and production risks:

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

A lack of replacement investments or maintenance 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 whose occurrence seems to be case by case.

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 higher frequency of Fake-President-Fraud in other groups, the Pfleiderer Group intensified its information campaign addressing employees. The Pfleiderer Group repeatedly pointed out that no employees, including management board members, are allowed to ask for payments/money transfers via email and nobody in the Group is allowed to circumvent the four-eyes-principle. As mistakes are always possible, 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.

1.10. INFORMATION ON MATERIAL AGREEMENTS AND TRANSACTIONS

Material party-related transactions in 2017

For information regarding related-party transactions as at 31 December 2017 and for the period from 1 January to 31 December 2017 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 2017, all related-party transactions were executed on an arm's length basis.

1.11. COURT PROCEEDINGS

Information related to significant settlement of litigation

As at 31 December 2017 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 as well as a potential tax liability described below.

Contingent liabilities

Eastern Europe:

Following an inspection in October 2011, on 30 March 2012 the Polish Office of Competition and Consumer Protection (the "OCCP") commenced proceedings against Kronospan Szczecinek sp. z o.o., Kronospan Mielec sp. z o.o., Kronopol sp. z o.o., Pfleiderer Group S.A. (formerly Pfleiderer Grajewo S.A.) and Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), regarding possible horizontal price fixing and exchange of information on conditions of sale in the chipboard and fiberboard markets in Poland, which may constitute breaches of Article 6 of the Act on Competition and Consumer

Protection and Article 101(1)(a) of the Treaty on the Functioning of the European Union. The maximum fines that the OCCP may impose on Pfleiderer Group S.A. and/or Pfleiderer Wieruszów Sp. z o.o. in these proceedings amount to 10% of their respective tax revenues in the year preceding the issuance of the infringement decision. The end date of the proceedings is still uncertain.

On 28 December 2017 the President of the Office of Competition and Customer Protection (hereinafter referred to as 'President of the OCCP') issued 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, involving the following:

- 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
- 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 binding. On the 29 January 2018, the Company and Pfleiderer Wieruszów sp. z o.o. files appeals against the Decision to the Court of Competition and Consumer Protection.

On 18 January 2018, the Company and Pfleiderer Wieruszów Sp. z o.o., in connection with the issuance of the Decision, created provisions totalling PLN 38 683 thousand (hereinafter referred to as 'Provisions'). Provisions have been established with effect on 31 December 2017. Provisions have been established in order to secure funds for anticipated legal costs related to the appeals 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.

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 hikes 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 2017 provisions related to antitrust violations of EUR 3 150 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, W. Classen GmbH & Co. KG ("Classen"), one of the Pfleiderer Group's current customers, filed an action with the regional court of Düsseldorf (Landgericht Düsseldorf) against the custodian (Sachwalter) of PCF GmbH (then Pfleiderer AG) seeking the acceptance of its claim to the insolvency schedule (Insolvenztabelle) filed in May 2012. The insolvency proceedings ended in December 2012. In April 2013, after the insolvency proceedings had ended, Classen extended its claim to PCF GmbH. Classen sought payment of the insolvency quota in the amount of EUR 1.3 million based on a claim for potential damages arising from the same deliveries as in the case against Pfleiderer Baruth GmbH, as described below. By its judgment of 27 April 2017 the regional court of Duesseldorf dismissed the claim in its entirety because it deemed the claim against the custodian as inadmissible due to the absence of authority to litigate at the time the claim was served on the (then former) custodian (January 2013). As regards PCF GmbH, the court found that Classen did not meet the exclusion period stipulated in the insolvency plan. To the management's best knowledge Classen has not filed an appeal against this judgment with the higher regional court Duesseldorf.

In December 2012, Classen also filed an action for damages with the regional court of Düsseldorf (Landgericht Düsseldorf) against Pfleiderer Baruth GmbH (then: Pfleiderer Faserplattenwerk Baruth GmbH) currently amounting to approximately EUR 55.4 million (plus interest). The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet. At an oral hearing on 2 February 2017, the court did not clearly indicate whether it deems the claim justified as to the merits or not. The next oral hearing is scheduled for 3 May 2018. As a result, the management has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2017 no provision has been recognised by the Group in these consolidated financial statements. The accrued legal costs for Classen are comprised in the total amount of EUR 3 150 thousand.

In December 2014 Alno AG ("Alno"), one of the Pfleiderer Group's customers, claimed for substantial damages from PCF GmbH on its own behalf and on behalf of two of its subsidiaries. Alno claims to have suffered damages due to the Chipboard Cartel and has filed an action for damages against PCF GmbH and another party in late December 2015 (currently in the minimum amount of EUR 28.4 million plus interest). In September 2017 a settlement agreement between Pfleiderer and Alno's insolvency administrator was signed according to which the direct and indirect claims of Alno for cartel damages have been settled. Pfleiderer shall have no joint and several liability anymore regarding supplies by other cartelists. In the meantime Alno has also formally advised the court that the claim against Pfleiderer has been settled.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfleiderer Group's customers, filed an action for damages with the regional court of Hanover (Landgericht Hannover) against Glunz AG amounting to approximately EUR 26 million (plus interest). The plaintiff claimed to have suffered damages due to the Chipboard Cartel. Following a third party notice (Streitverkündung) by Glunz, PCF GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court pronounced a judgment on 31 May 2016 according to which the claim is justified on the merits but subject to further discussion regarding quantum. Glunz AG has filed an appeal against this decision with the higher regional court in Celle. The court meeting was held in March 2018. The outcome is difficult to predict at this moment. The court of appeal will announce its decision in July 2018.

As at 31 December 2017 the Management based on its best knowledge recognised a provision for the expected outcome, which is included in the total amount of EUR 3 150 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 Glunz or any other third party is obligated to pay compensation to Oeseder. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

The Western European segment is subject to certain tax risks described in point 1.9 Risk Management. As at 31 December 2017 the management assessed the risks related to this uncertain tax position and it has determined that not all of the conditions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2017 no provision has been recognised by the Group in these consolidated financial statements.

Moreover the Group has tax liabilities for the expected outcome of the tax audit for 2010-2015 in Germany totalling EUR 7.2 million, set up in past years and EUR 1.2 million was added this year.

1.12. WORKFORCE IN THE PFLEIDERER GROUP

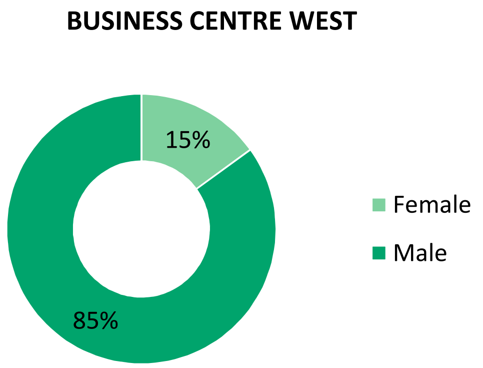
Human Resources Management

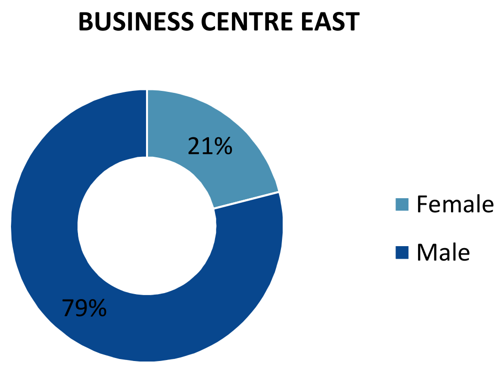
3 521	Annual employment in **Pfleiderer Group** in 2017
1 353	Annual employment in **Business Centre East** in 2017
2 168	Annual employment in **Business Centre West** in 2017

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

	2017	2016
Management	10	7
Direct production employees	1 699	1 502
Indirect production employees	749	779
Administration, office and other employees	1 063	977
Total	3 521	3 265

FIGURE 15: GENDER STRUCTURE





In 2017, the agreed integration activities were continued and Pfleiderer Polska sp. z o.o. in Wrocław was established with the following functions:

- Customer and order management and commercial services
- Marketing (product management & marketing services incl. communication and product training)
- HR
- Procurement
- IT
- Price management
- Sales control
- Décor management

At the end of 2017, Pfleiderer built an order management team to provide services for the whole Group. The development of product management was a challenge, especially in high-margin products, for example HPL. The most crucial thing was to provide assistance to the sales department in implementing the new collection in Poland, Germany and the export markets. The Group's salesforce is presently prepared to communicate One Collection to our customers. Pfleiderer has completed the process of onboarding 60 employees whose responsibility is strengthening the new sales strategy across the Group, particularly in new areas such as the investment market (hotels, public buildings).

Managers at all levels and from all countries have received special support in change management and building a functional organisation. The next step is market development in Central & Eastern Europe where the Group already has staff to implement the sales strategy. The training and development strategy focuses on developing young executives and middle production management as well as project management experts.

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.

To support the international sales and marketing team to meet the next challenges in the changing business environment, the Group started a development plan for c.a. 26 employees. Pfleiderer started the development centre project in 2017 and plans to continue development activities in 2018.

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 2017, the Company employed managers and experts dedicated to activities at the Group level:

- Management board (CEO, CSO, CCO, CFO)
- Group accounting and reporting
- Legal support
- Internal audit

TABLE 7: WORKFORCE IN PFLEIDERER GROUP S.A. (AVERAGE HEADCOUNT)

	2017	2016
Direct production employees	0	0
Indirect production employees	0	0
Administration, office and other employees	15	13
Management	3	3
Total	18	16

1.13. 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 2017 we introduced our new safety program ONE HEALTH & SAFETY to improve the overall safety culture in the company with a common approach in Poland and Germany. The main activities inside ONE HEALTH & SAFETY are as follows:

- 25 leadership workshops on Board, Group, Site and shift supervisor level,
- Introduction of a Near-Miss system to improve accident prevention,
- Introduction of a "Pfleiderer Near-Miss App" to simplify reporting,
- Introduction of "5 minutes for safety" on plant and shop floor level to improve safety communication,
- Introduction of a "Hazard-Alert" system to obtain fast and comprehensive information about accidents and critical Near-Miss reports.

As a result of these activities, we successfully reduced our accident and absence hours in 2017:

- 42 % reduction of accidents against 2016 numbers
- 32 % reduction of absence hours against 2016 numbers.

In addition, in the first year after the introduction of our Near-Miss system, 23 511 reports were made at the Group level. The reports pertained to unsafe conditions and unsafe conduct.

2017 was a big step toward approaching our ZERO ACCIDENT vision, but there are still some steps to climb to achieve it.

Environment

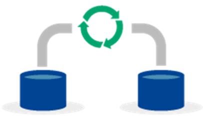
In 2017 the most important environmental activities were related to two new environmental legislation processes:

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 it is expected that the same will happen in Poland in 2018. In 2017, 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 employee.

In 2017 a process started at the European Level to transfer this German Guidance document to the European level and Pfleiderer experts are members of the Steering Committee to develop a European Guidance document, to be valid for the whole European Wood Based Panel Industry.



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 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.

While in 2016 the situation regarding the new limits was evaluated in all the plants, in 2017 Pfleiderer Group was able to show that the new limits, slated to come into force at the end of 2019 are already met in most plants. Additionally, in 2017 the necessary investments were made in other plants to enable them to fulfil the new legal requirements by the end of 2019. In only a few cases did it become 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. One can therefore expect that the derogations will be given by the authorities in 2018.

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)
- Indirect (Production & Maintenance, SCM, Corporate)

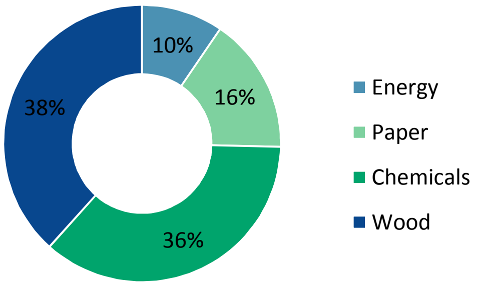
Using the overall Group's size and bargaining power, each area negotiates terms and conditions with suppliers based on the strategy prepared and realized in each pertinent group.

In 2017 the Procurement Department was responsible for co-operation with suppliers in many projects, with FAFIO (Focus Areas For Improvement in Operations) being one of the most important. It calls for achieving savings in following years. The on-going target is to enlarge the advantages of Global Sourcing markets and optimise working capital.

At the same time, the Procurement Department is working on a project called "Procurement Excellence" to intensify focus on strategic fields in purchasing and further develop the procurement organisation and its performance in best practice.

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

FIGURE 16: 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. 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 production process. Due to the relatively low price 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 high. Therefore, there is a trade-off between energy generation and the manufacture of wood products. As a result of its wood market analysis for Germany and Poland in 2017 Pfleiderer expects a comfortable availability of chips, rounded wood and recycling wood. However, Pfleiderer sees some competition risk in the pellet industry business and pulp industry for the market of sawdust and chips in Poland and Germany. The Group is also increasing its use of recycling wood and chips in the production mix to drive down production costs.

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 2017 all chemical raw material prices follow the global oil and gas market prices, which increased significantly, especially in the first quarter of 2017.

Paper

The Pfleiderer Group orders décor paper and technical paper from global suppliers. By buying paper globally, the Group can cut its costs by buying in bulk.

The price of paper consists of two main components: pulp and titanium dioxide. Titanium dioxide is used mostly in white decors because of the high content of white pigments.

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 short-, middle- and long-term expectations for prices from the wholesale commodity markets are continuously evaluated.

As a consequence of the very short-term and market-oriented energy procurement strategy in 2017, its result was not strongly affected by rising prices on the global coal and oil market.

Indirect

Indirect is an important procurement area (Production and maintenance, SCM, corporate), where the Group takes advantages of opportunities to make joint purchases and shave the number of suppliers to streamline and enhance the effectiveness of the procurement process.

Sustainability

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

Each year Pfleiderer processes around five million cubic meters of wood – that is roughly the equivalent of 800 truckloads per working day. We 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 research and development department continuously tests new methods and processes for using raw materials as sparingly as possible. At the moment it is busy examining the manufacture of particularly lightweight wood-based panels. These should only contain lignocellulose-based raw materials and should be a third lighter than wood-based panels with the same thickness to date.

Our objective: use these 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.

Most of our goods are transported by road. In 2013, our own transport company, Jura-Spedition, was one of the first businesses in Germany to replace its entire fleet to meet the new Euro 6 standard. Jura Spedition therefore now drives an even more environmentally friendly fleet than before and uses the latest technology.

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.

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A. AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

KEY OPERATIONAL DATA

2. KEY OPERATIONAL DATA

2.1. PRODUCTION VOLUME AND STRUCTURE

In 2017 and 2016 the production volumes of the main product groups at the group level were as follows:

TABLE 8: PRODUCTION VOLUMES OF MAIN PRODUCT GROUPS AT THE GROUP LEVEL

'000		2017	2016	Change (%)
Gross production of raw chipboards (finished goods; semi- product for the of laminated chipboards)	cbm	3 292	3 135	5%
Laminated boards	sqm	108 053	106 057	2%
Raw MDF/HDF boards (finished goods, semi-product to lacquered MDF boards)	cbm	572	545	5%

Sizeable YoY growth resulted from organic development in the East and West part and changes to the Group's structure.

TABLE 9: PRODUCTION VOLUMES OF MAIN PRODUCT GROUPS IN BUSINESS SEGMENTS

'000		2017 Core West	2017 Core East
Gross production of raw chipboards (finished goods; semi- product for the of laminated chipboards)	cbm	1 937	1 355
Laminated boards	sqm	67 076	40 977
Raw MDF/HDF boards (finished goods, semi-product to lacquered MDF boards)	cbm	356	216

2.2. SALES STRUCTURE

Revenue reported by the Group in 2017 was EUR 1 006 395 thousand and increased 8.3% compared to 2016 (excluding 19 days of 2016 for Core West).

The sales volumes by product groups were as follows:

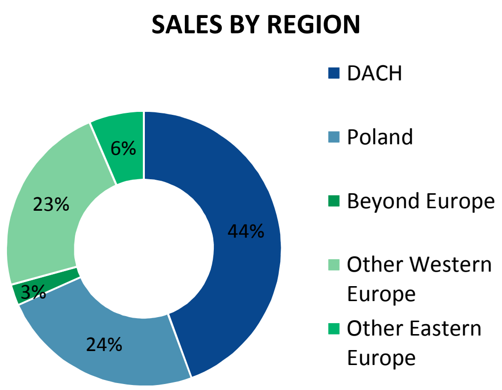
TABLE 10: REVENUE BY PRODUCT GROUP

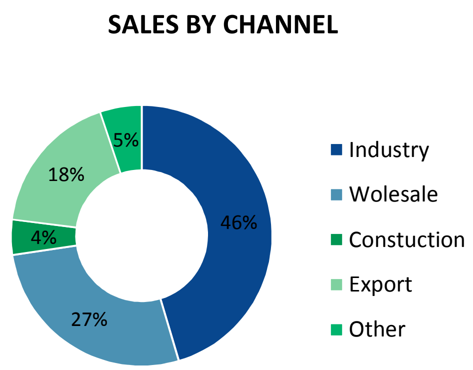
'000 EUR	2017	2016
Raw particleboard	183 503	160 446
Raw MDF/HDF	101 374	91 405
Lacquered board	30 173	32 144
Melamine faced board	459 679	437 161
HPL	74 956	68 293
HPL elements	79 654	78 799
Others	60 642	54 241
Sale of products	**989 981**	**922 489**
Electricity	33 909	30 107
Scrap	5 964	3 333
Freight outs	7 044	8 090
Other	1 783	-127
Sales reductions (1)	-32 286	-34 304
Others incl. sales deductions	**16 414**	**7 099**
TOTAL	1 006 395	929 588

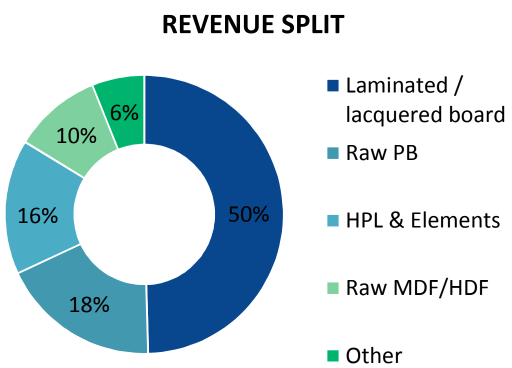
(1) Sales reductions include bonuses for customers, cash discounts and refunds.

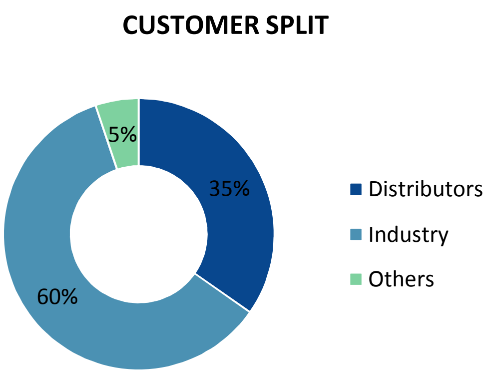
TABLE 11: SALES VOLUMES BY PRODUCT GROUP AT THE GROUP LEVEL

		2017	2016
Laminated particleboard	spm	101 473 261	99 735 338
HPL	spm	11 662 240	11 409 762
Raw particleboard	cbm	1 125 416	1 030 911
Laminated MDF/HDF board	spm	3 228 900	3 182 105
Raw MDF/HDF board	cbm	387 694	374 147









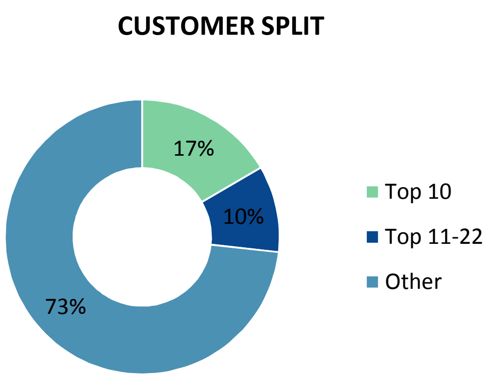


TABLE 12: REVENUE BY REGION AT THE PFLEIDERER GROUP S.A. LEVEL (STANDALONE)

'000 PLN	2017	2016
Domestic sales	**n.a.**	**303 784**
revenue from sale of products	n.a.	241 215
revenue from sale of merchandise and materials	n.a.	43 207
revenue from rendering of services	n.a.	19 362
Foreign sales	**n.a.**	**91 665**
revenue from sale of products	n.a.	90 896
revenue from sale of merchandise and materials	n.a.	41
revenue from rendering of services	n.a.	728
TOTAL	n.a.	395 449

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

		2017		2016
'000 PLN	Value	% share	Value	% share
Revenue from sale of products	**n.a.**	**n.a.**	**332 111**	**83.98%**
Chipboards	n.a.	n.a.	267 141	67.55%
Finish foil (foil, edge banding, edge foil)	n.a.	n.a.	38 352	9.70%
Other (fibre mats, packaging)	n.a.	n.a.	26 618	6.73%
Revenue from sale of merchandise and materials	**n.a.**	**n.a.**	**43 248**	**10.94%**
Materials	n.a.	n.a.	43 014	10.88%
Merchandise	n.a.	n.a.	234	0.06%
Revenue from rendering of services	**n.a.**	**n.a.**	**20 090**	**5.08%**
TOTAL	n.a.	n.a.	395 449	100.00%

TABLE 14: PFLEIDERER GROUP S.A. SALES BY PRODUCT GROUP (STANDALONE)

'000 PLN		2017	2016
Raw chipboards	cbm	n.a.	235
Laminated boards	sqm	n.a.	9 973

Further to the transfer of Operational Activity of Pfleiderer Group S.A. to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016, Pfleiderer Group S.A. is a pure holding company.


MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A.
AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2017
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 10 April 2018.

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

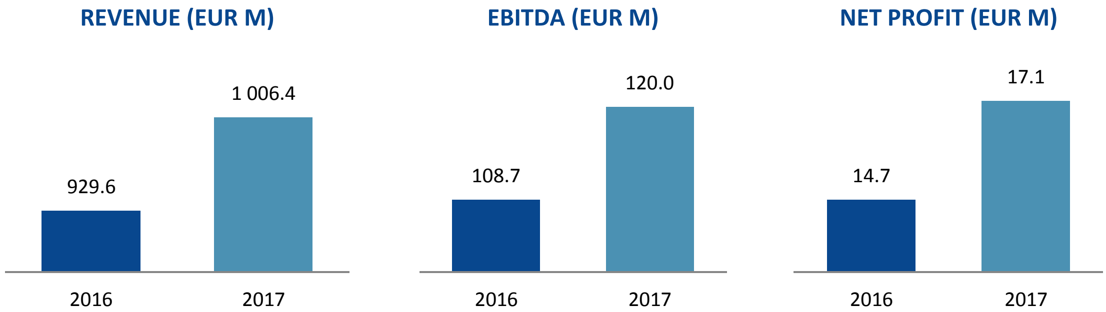


TABLE 15: CONSOLIDATED STATEMENT OF PROFIT OR LOSS

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Revenue	1 006 395	929 588
Cost of sales	-775 457	-711 527
Profit on sales	**230 938**	**218 061**
Other operating income	16 032	8 905
Distribution expenses	-131 787	-111 449
General and administrative expenses	-51 969	-49 498
Other operating expenses	-17 133	-28 636
Result from operating activities	**46 081**	**37 383**
Financial income	8 127	3 732
Financial expenses	-34 701	-29 713
Exchange differences	10 859	1 664
Net financing cost	**-15 715**	**-24 317**
Profit before tax	**30 366**	**13 066**
Income tax expense	-13 227	1 682
Net profit for the reporting period	17 139	14 748

Note: data for 2016 does not comprise first 19 days of Core West segment in accordance with the consolidated financial statement.

Revenues came in at EUR 1 006 395 thousand in 2017, growing 8.3% YoY, mostly due to organic developments supported by a strong market. In Q4 the Group managed to stop the margin squeeze stemming from the growth in raw material prices. Substantive single-digit sales volume increases were recorded, with laminated particleboard volume growth of 2%, raw particleboard volumes growing as much as 9% YoY, raw MDF/HDF boards by 4% YoY, HPL by 2% and laminated MDF/HDF board by 1.5% in 2017 . The Core West segment revenues hit EUR 704 745 thousand, up 13.5% YoY, while the Core East segment added EUR 301 650 thousand, down 2.3% YoY. The divergent growth rates in the segments resulted from changes in segment allocations – exchange of markets in the reorganisation process of sales between East and West (transfer of some of West markets from East to West and transfer of some of East markets from West to East). In fact some HDF boards' sales historically reported as external revenues are now carried as inter-company transactions (internal revenues), lowering the external revenues of the Core East segment, and driving up the external revenues of the Core West segment, yet not affecting the overall consolidated result.

The Group's profit on sales was EUR 230 938 thousand in 2017, growing as much as 5.9% YoY. The gross profit margin remained stable YoY in 2017, coming in at 22.9% versus 23.5% in 2016. Moderate growth in the costs of sales was driven by productivity enhancement programmes and successful cost initiatives minus the growth in the prices of materials. Higher costs of sales in 2017 resulted substantially from the higher prices of materials, mainly chemicals and production costs, which were only partially covered by the sales margin. The prices of methanol and urea rose significantly. The prices of electricity grew moderately. Lower wood costs were due to the shift in the purchased products mix.

There was a sizeable c. 14.2% YoY growth in Group's distribution, general and administrative expenses, which was EUR 183 756 thousand in 2017. Higher selling expenses were linked to higher sales volumes, higher costs of freight, higher sales personnel and marketing costs. G&A expenses remained at a stable level YoY.

2017 was marked by favourable YoY developments in the other operating income and other operating expenses lines. Other income in 2017 was positively influenced by release of obligation for repayment of government grant supporting electricity sales of EUR 4.4 m, sale of unused CO2 emission rights as well as release of unused accruals.

Other operating expenses, on the other hand, were mainly negatively affected by the OCCP provision of EUR 9.3 m. Higher costs in 2016 were generated by one-offs including severance payments in West and EUR 5.1 m real estate tax cost in the East. Overall, the Group's result from operating activities came in at a strong EUR 46 081 thousand in 2017, growing by c. 23.3% YoY. Segment results, beside the events described above reflect centralisation of services due to the One Pfleiderer project, followed by centralised purchase prices for services in the East and West segments.

As a consequence, their EBIT contribution changed sizably YoY. The operating result of Core West was EUR 40 291 thousand in 2017 versus EUR 14 173 thousand in 2016. The operating result of Core East was EUR 5 894 thousand in 2017 versus EUR 24 156 thousand in 2016.

The net financing result for 2017 improved by ca. 35.4% YoY totalling EUR 15 715 thousand in the red. These resulted from various one-offs relating to closing old financing, namely: revaluation of amortised cost due to faster bond redemption of EUR 8 078 thousand netted against the recognised costs of the redemption fee of EUR 6 334 thousand, offset by costs incurred in conjunction with refinancing. Moreover, the subsidiary PCF granted Pfleiderer Group S.A. a loan in EUR as a part of settlements in the reverse takeover transaction. The loan, originally in EUR was revalued in PLN in Pfleiderer Group S.A. The loan is revalued on each reporting day in the ledgers of Pfleiderer Group S.A. in accordance with the pertinent accounting standards. As a result, the consolidated financial statements do not eliminate the forex difference in the ledgers of Pfleiderer Group S.A. with the amount as of 31 December 2017 being EUR 10 859 thousand.

In August 2017 the Group redeemed its existing financing solution with a more favourable capital market transaction. Starting from 2018, net finance costs savings are expected to be approx. EUR 6.5m compared to 2016/2017.

The income tax expense is higher than expected in terms of the effective tax rate, mainly due to the German tax rate of 28,85%, additional tax liabilities relating to CIT in previous years in the West and the fine imposed by OCCP which is not a tax deductible expense. Overall, the Group's net profit came in at EUR 17 139 thousand in 2017, up 16.2 % YoY.

TABLE 16: CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR Q4

'000 EUR	1 Oct. - 31 Dec. 2017	1 Oct. - 31 Dec. 2016
Revenue	255 485	233 784
Cost of sales	-199 110	-177 537
Profit on sales	**56 375**	**56 247**
Other operating income	4 178	2 850
Distribution expenses	-28 278	-29 811
General and administrative expenses	-13 359	-11 763
Other operating expenses	-13 893	-3 401
Result from operating activities	**5 023**	**14 122**
Financial income	-18	1 151
Financial expenses	-5 415	-8 115
Exchange differences	4 822	-3 804
Net financing cost	**-611**	**-10 768**
Profit before tax	**4 412**	**3 354**
Income tax expense	-6 340	-5 152
Net profit for the reporting period	-1 928	-1 798

3.2.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 17: CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

ASSETS '000 EUR	31 Dec. 2017	31 Dec. 2016 (*)
Property, plant and equipment	554 279	548 863
Intangible assets	82 907	83 091
Goodwill	67 541	66 171
Long term investments	511	515
Investment property	850	875
Deferred tax assets	6 471	5 948
Advances paid on fixed assets	9 877	3 016
Government grants receivables	5 275	12 921
Other non-current assets	3	2
Non-current assets	**727 714**	**721 402**
Inventories	96 301	91 903
Trade and other receivables	35 673	32 878
Income tax receivable	244	376
Government grant receivables	0	642
Cash and cash equivalents	83 845	97 726
Fair value of hedging instruments	380	0
Other short term financial assets	326	0
Current assets	**216 769**	**223 525**
Total assets	944 483	944 927

LIABILITIES AND EQUITY '000 EUR	31 Dec. 2017	31 Dec. 2016
Share capital	6 692	6 692
Share premium	146 375	146 375
Statutory reserve funds	87 281	91 801
Reserves	-10 330	-13 937
Retained earnings	9 884	40 324
Total equity attributable to owners of the Company	239 902	271 255
Total equity	239 902	271 255

Liabilities		
Loans and borrowings	336 155	329 762
Provisions for employee benefits	53 389	56 893
Provisions	1 453	3 694
Deferred tax liabilities	65 625	64 176
Deferred income from government grants	8 807	17 439
Other non-current liabilities	18	239
Non-current liabilities	**465 447**	**472 203**
Loans and borrowings	2 529	10 898
Income tax payable	15 734	10 559
Trade and other payables	182 968	144 111
Employee related payables	21 794	22 118
Provisions	15 555	12 782
Deferred income from government grant	554	1 001
Current liabilities	**239 134**	**201 469**
Total liabilities	**704 581**	**673 672**
Total equity and liabilities	944 483	944 927

(*) Data restated due to reclassification – for details please see Note 28 of the annual consolidated financial statements

The assets in the statement of financial position remained relatively stable in 2017 versus FY 2016 numbers. Non-current assets in 2017 constituted 77% of total group assets versus 76% in FY 2016. Within the twelve month period a significant pick-up in advances paid on fixed assets was noticeable but it was offset by a decrease in the long-term government grants due to the revaluation of the government grant. There were however changes in the current asset composition. Inventories grew c. 5% in the twelve month period due to growth in stocks of wood and other raw materials. Receivables grew 11%, faster than sales in 2017. As a result the cash and cash equivalents level in 2017 was down 14% compared to the end of 2016.

The sum of non-current liabilities decreased in the 2017 mainly due to the revaluation of government grants while current liabilities went up substantially. Total provisions increased due to the OCCP provision offset by the utilisation of the restructuring provision in 2017. A major increase can be observed in trade and other liabilities of 27% mainly due to higher trade payables and liabilities for capital expenditures. The current part of loans and borrowings balance was significantly reduced comparing to FY 2016. The company redeemed corporate bonds early in August 2017 and new loan facilities were arranged.

Despite higher Group net income, there is a drop in the Group's total equity of EUR 239 902 thousand at the end of 2017 following the dividend payment of EUR 16 456 thousand and share buyback of EUR 35 643 thousand in Q4 2017.

Total equity represented 25% of total equity and liabilities at the end of 2017, with its percentage the proportion being relatively stable versus year end 2016.

3.2.3. CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 18: CONSOLIDATED STATEMENT OF CASH FLOWS IN 2017

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016 (*)
Net profit for the reporting period	**17 139**	**14 748**
Depreciation and amortization	73 872	71 360
Foreign exchange gains	-10 859	-1 664
Interest for the period	27 358	26 028
Profit on investing activities	92	181
Income tax disclosed in profit or loss of the period	13 227	-1 682
Amortisation of government grants	-844	-1 402
Result on forward contracts	-784	-47
Increase in exchange differences on translating foreign operations	1 684	-694
Changes in		
trade and other receivables	-7 588	13 219
Inventories	-2 000	3 537
trade and other payables	28 632	-6 388
employee benefit obligations	477	-1 208
Provisions	517	14 549
Cash generated from operating activities	**140 923**	**130 537**
Income tax (paid)/received	-7 594	-7 733
Net cash provided by operating activities	133 329	122 804
Net cash used in investing activities		
Disposal of property, plant and equipment	29	132
Interest received	100	83
Repayment/(granting) loan to other entities	0	729
Acquisition of intangible assets and property, plant and equipment	-66 887	-53 580
Acquisition of subsidiary, net of cash acquired	0	-9 637
Net cash used in investing activities	-66 758	-62 273
Net cash used in financing activities		
Repayment of borrowings and other debt instruments	-321 684	-22 272
Increase of borrowings and other debt instruments	350 000	0
Share issue	0	80 864
Share buy-back	-35 643	0
Dividend payments	-16 456	-14 585
Interest paid	-28 327	-27 635
Redemption fee and refinancing costs	-21 200	0
Other financing activities	-7 142	92
Net cash used in financing activities	-80 452	16 464
Total cash flows	-13 881	76 995

Decrease/Increase in cash	-13 881	76 995
Cash at beginning of the period	97 726	20 720
Currency translation adjustment	0	11
Cash at the end of the period	83 845	97 726

(*) Data restated due to reclassifications – for details please see Note 28 of the annual consolidated financial statements

The net cash from operating activities remained at a high level in 2017, reaching EUR 133 329 thousand. The 2017 operating line was favourably affected by higher YoY pick-up in trade and other payables. However, growth in inventories in 2017 coupled with increase in trade and other receivables offset the favourable developments.

The YoY comparability of investing and financing cash flows is limited due to changes within the Group's structures which took place over the past quarters. The investing cash flow was EUR 66 758 thousand negative in 2017 (mainly CAPEX net of change in investment liabilities). Organic investments conducted translated into a 45% YoY growth in capex to EUR 76 343 thousand in 2017. In 2016 the investing cash flow additionally contained a EUR 9 637 thousand net outlay for subsidiary.

The level and sign of net financing cash flow in 2016 was strongly influenced by EUR 80 864 thousand share issuance, part of the Group's restructuring process. 2017 financing cash flow was negative at EUR 80 452 thousand, mostly due to payments for the additional costs resulting from refinancing and interest as well as the shares buyback.

3.2.4. KEY FINANCIAL RATIOS – GROUP

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

TABLE 19: KEY FINANCIAL RATIOS DESCRIBING THE GROUP'S PERFORMANCE

	Definition		2017	2016
Liquid funds	Cash and cash equivalents	mEUR	83.8	97.7
Net debt	Financial debt - liquid funds	mEUR	254.8	242.9
Net leverage	Net debt / EBITDA (LTM)	factor	2.1	2.2
Equity ratio	Equity / balance sheet totals	%	25.4%	28.7%
Gearing	Net debt / equity	factor	1.1	0.9
EBITDA (LTM)	Result from operating activities + depreciation + amortization for last 12 months	mEUR	120.0	108.7
Interest cover	EBITDA (LTM) / net financing costs (LTM)	factor	7.6	3.7
ROCE	Result from operating activities (LTM) / Capital employed	%	7.6%	6.0%
ROA	Net profit (LTM) / total assets at the end of the period	%	1.8%	1.6%
ROE	Net profit (LTM) / equity at the end of the period	%	7.1%	5.4%

The financial ratios of the 2016 represent data of the Pfleiderer Group S.A. Group excluding period of 19 days of January 2016 of Core West Segment.

Looking at the financing position in YoY comparison shows a stable level of the net debt which coupled with growing EBITDA levels resulted in favourably lower net leverage levels and slightly lower interest cover ratio. Such important ratio like ROCE improved YoY in 2017.

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 20: MARGINS

	2017	2016
Gross profit margin (Profit on sales/Revenue)	22.9%	23.5%
EBIT margin (Result from operating activities/Revenue)	4.6%	4.0%
Pre-tax margin (Profit before tax/Revenue)	3.0%	1.4%
Net income margin (Net profit/Revenue)	1.7%	1.6%

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

On 13 April 2017 the Group has finalised 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 bearing interest at Euribor + margin (Euribor floor: 0.75%) and 99.0 OID and
- the new EUR 100.0 million 5-year revolving credit facility bearing interest at Euribor + margin (Euribor floor: 0%).

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.

Security interests under the Senior Facilities Agreement dated 13 April 2017 (Polish entities)

In order to secure the new obligations under the senior facilities agreement dated 13 April 2017, 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 a power-of-attorney to exercise corporate rights from the pledged shares in favour of Trigon Dom Maklerski S.A. (the "Polish Security Agent").

Following the initial utilisation of the facilities under the senior facilities agreement dated 13 April 2017, 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 alia, 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 dated 13 April 2017, 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. (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 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. (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 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. (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 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. (formerly Pfleiderer Prospan S.A.) 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. (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. executed submissions to enforcement in favour of the Security Agent.

Security interests under the Senior Facilities Agreement dated 13 April 2017 (German entities)

Following the initial utilisation of the facilities under the senior facilities agreement dated 13 April 2017, 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 dated 13 April 2017, the following security interests have been granted for the benefit of the lenders:

(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 Group members

As at 13 April 2017, certain Group members guaranteed the liabilities under the EUR 450 000 000 senior facilities agreement, namely: 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. (formerly Pfleiderer Prospan S.A.), 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 14 April 2017.

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

Operating results in FY 2017 are not comparable with the previous year;s operating results. The 2016 financial standing of Pfleiderer Group S.A. was affected by the contribution-in-kind of Operational Activity of Pfleiderer Group S.A. to Pfleiderer Grajewo Sp. z o.o. as of 31 August 2016. Since then, the Company is a holding company. As a result of this transaction 2016 operating results include the results of Operational Activity for 8 months, while 2017 results reflect purely the holding activity of the Company with the exception of the provision of PLN 17 418 thousand created by the Company for the costs of a potential fine and the costs of appeal against the Decision of the President of the Office of Competition and Consumer Protection dated 28 December 2017 imposing a fine of PLN 15 958 thousand on the Company.

The significant increase in the result on financial activity of PLN 254 031 thousand comes mostly from dividends received from subsidiaries of PLN 413 318 thousand compared to PLN 216 957 thousand in 2016 and from positive foreign exchange differences on the settlement of intercompany loan taken to finance the acquisition of a subsidiary in January 2016, on the partial settlement and valuation of other financial liabilities representing an obligation taken over from Atlantik S.A. and on the valuation of intercompany loan taken to finance the share buyback (detailed information disclosed in the notes to the standalone financial statements).

3.3.1. STANDALONE STATEMENT OF PROFIT OR LOSS

TABLE 21: STANDALONE STATEMENT OF PROFIT OR LOSS

	'000 PLN		'000 EUR	
	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Revenue	n.a.	395 449	n.a.	90 635
Results from operating activity	-31 446	8 117	-7 388	1 860
Profit before tax	419 336	204 868	98 517	46 955
Net profit for the reporting period	415 542	207 056	97 625	47 456
Basic earnings per share (in PLN/EUR)	6.49	3.24	1.53	0.74
Diluted earnings per share (in PLN/EUR)	6.49	3.24	1.53	0.74
Average PLN/EUR exchange rate			4.2565	4.3631

Starting from 1 September 2016 Pfleiderer Group S.A. is a pure holding company further to the contribution-in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. executed on 31 August 2016.

The positive difference between profit before tax and result from operating activity in 2017 results from dividend income of PLN 413 318 thousand as well as positive foreign exchange gains of PLN 49 472 thousand on the settlement/partial settlement/valuation of euro denominated loans from PCF GmbH and on obligation taken over from Atlantik SA representing proceeds from the sale of Pfleiderer Group S.A. shares held by Pfleiderer Service GmbH after the settlement of the Secondary Offering to Atlantik S.A., partly offset by loan interest (PLN 21 076 thousand).

3.3.2. STANDALONE STATEMENT OF FINANCIAL POSITION

TABLE 22: STANDALONE STATEMENT OF FINANCIAL POSITION

	'000 PLN		'000 EUR	
	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Total assets	2 282 384	2 224 785	546 417	504 452
Liabilities	839 146	973 467	200 897	220 725
Non-current liabilities	4 121	356	987	81
Current liabilities	835 025	973 111	199 910	220 645
Equity	1 443 238	1 251 318	345 520	283 726
Share capital	21 351	21 351	5 112	4 841
Number of shares	64 701 007	64 701 007	64 701 007	64 701 007
Book value per share (in PLN/EUR)	22.31	19.34	5.34	4.39
PLN/EUR exchange rate as at the end of the reporting period			4.1770	4.4103

3.3.3. STANDALONE STATEMENT OF CASH FLOWS

TABLE 23: STANDALONE STATEMENT OF CASH FLOWS

	'000 PLN		'000 EUR	
	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Net cash provided by operating activities	-20 751	30 240	-4 875	6 931
Net cash provided by/ used in investing activities	81 918	-405 938	19 245	-93,039
Net cash used in financing activities	-61 431	349 392	-14 432	80 079
Total net cash flow	-264	-26 306	-62	-6 029
Average PLN/EUR exchange rate			4.2565	4.3631

3.3.4. STANDALONE KEY FINANCIAL RATIOS – PFLEIDERER GROUP S.A.

TABLE 24: PFLEIDERER GROUP S.A.'S SALES MARGINS

		1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Operating margin	Operating profit / Revenue	n.a.	2.05%
Pre-tax margin	Profit before tax / Revenue	n.a.	51.81%
Net margin	Net profit / Revenue	n.a.	52.36%

Starting from 1 September 2016 Pfleiderer Group S.A. is a pure holding company, thus did not record any revenue in 2017.

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 2017.

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 25: RATINGS AWARDED TO PFLEIDERER GROUP

	Rating date	Company's long-term rating	Rating outlook
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

Moody's updates credit opinion on Pfleiderer Group S.A.: Update on Key Credit Factors; Long Term Rating Ba3; stable outlook

Pfleiderer Group S.A.'s corporate family rating (CFR) was updated on 26 February 2018. The unchanged Ba3 CFR is supported by (1) Pfleiderer's leading positions in the concentrated markets of wood based particleboards in Germany and Poland, (2) a portfolio geared towards value-added and more profitable premium products, such as furniture boards, kitchen worktops, high pressure laminates (HPL), melamine-faced chipboards and artificial wall coverings, (3) long-standing relationships with a well-diversified customer base in the furniture and construction industries, (4) improved profitability since 2016, following extensive restructuring and realized synergies from the ongoing "One Pfleiderer" project, (5) moderate leverage with about 3.4x Moody's-adjusted debt/EBITDA for the 12 months ended September 2017, and (6) benign economic and industry fundamentals in the group's core European markets, suggesting continued healthy demand prospects.
The stable outlook assumes modest organic topline growth and margins at least around current levels, resulting in forecast moderate de-levering towards 3x Moody's-adjusted debt/EBITDA over the next 18 to 24 months. The outlook also reflects our expectation of continued positive free cash flow generation and no excessive shareholder distributions.

S&P Global

S&P long-term corporate credit rating awarded to Pfleiderer Group S.A.
On January 20, 2017, Standard & Poor's Ratings Services raised long-term corporate credit rating on Poland-based wood panels producer Pfleiderer Group S.A. and its wholly-owned Germany-based subsidiary PCF GmbH to 'B+' from 'B' with positive outlook.

At the same time, S&P raised the issue rating of the senior secured notes issued by PCF GmbH to 'B+' from 'B' and affirmed the recovery rating at '4', indicating S&P expectation of average recovery prospects (30%).

The upgrade follows Pfleiderer's recently improving underlying operational performance and our expectation that lower interest and restructuring expenses will result in improving credit metrics in 2017 and 2018.

The rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

3.7. 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 Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa

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. (previously Pfleiderer Grajewo S.A).

In audited period, the fees due to Deloitte Polska Sp. z o.o. sp. k. related to audit services amounted to EUR 416.7 thousand. These encompassed the review 1H 2017 financial statements as well as audit of 2017 stand-alone and group financial statements. In prior year, the fees due to KPMG Audyt Sp. z o.o. sp. k. related to audit services amounted to PLN 1 174 thousand. These encompassed review of 1Q 2016 and 1H 2016 financial statements as well as audit of 2016 standalone and group financial statements. The scope of work in 2016 was complex due to the audit of the acquisition of the German part of the business by Pfleiderer Group S.A.

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. The effective portion of gains or losses on the fair value of hedging instruments (forward transactions) is included in other comprehensive income and presented as a separate equity position “cash flow hedge”. The gains or losses previously recognized in other comprehensive income are transferred to profit or loss over the same period and in the same position in which the hedged cash flows are recognized in the statement of comprehensive income. The ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

Borrowings

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

Bank loans and corporate bonds

Use of bank borrowings

TABLE 26: BORROWINGS AND OTHER DEBT INSTRUMENTS

'000 Euro	31 Dec. 2017	31 Dec. 2016
Non-current portion of interest-bearing bonds	0	329 762
Bank borrowings	336 155	0
Non-current liabilities	**336 155**	**329 762**
Current portion of interest-bearing bonds	0	10 555
Current portion of bank borrowings	2 333	0
Other interest bearing liabilities	196	343
Current liabilities	**2 529**	**10 898**
TOTAL	338 684	340 660

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).

At the reporting date these Revolving Credit Facilities were not drawn in cash whilst bank guarantees were issued within the Revolving Facility 2 for a total amount of PLN 7 265 thousand as well as Letters of Credit in an amount of EUR 2 733 thousand. Revolving Facility 1 is partially drawn for bank guarantees of EUR 2 262 thousand and PLN 1 559 thousand (EUR 362 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 27: FINANCINGS CORE EAST (EXLUDING FACTORING AND OPERATING LEASES)

'000 EUR							31 Dec. 2017			31 Dec. 2016		
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	19 Jan 2016	01 Aug 2017	*)		0	0	0	2 267	0	2 267
Bank Millennium S.A. (Ancillary)	PLN	WIBOR + margin	04 Feb 2016	01 Aug 2017	*)		0	0	0	7 129	0	7 129
Bank Zachodni WBK S.A.	PLN	WIBOR + margin	19 Jan 2016	01 Aug 2017	*)		0	0	0	4 535	0	4 535
Bank Zachodni WBK S.A. (Ancillary)	PLN	WIBOR + margin	04 Feb 2016	01 Aug 2017	*)		0	0	0	6 802	0	6 802
PKO Bank Polski S.A.	PLN	WIBOR + margin	19 Jan 2016	01 Aug 2017	*)		0	0	0	4 535	0	4 535
PKO Bank Polski S.A. (Ancillary)	PLN	WIBOR + margin	04 Feb 2016	01 Aug 2017	*)		0	0	0	6 802	0	6 802
Alior Bank S.A.	PLN	WIBOR + margin	19 Jan 2016	01 Aug 2017	*)		0	0	0	6 802	0	6 802
Alior Bank S.A. (Ancillary)	PLN	WIBOR + margin	04 Feb 2016	01 Aug 2017	*)		0	0	0	4 535	0	4 535
Bank Millennium S.A.	PLN	WIBOR + margin	01 Aug 2017	01 Aug 2022			18 930	0	18 930	0	0	0
Alior Bank S.A.	PLN	WIBOR + margin	01 Aug 2017	01 Aug 2022			18 878	0	18 878	0	0	0
Raiffeisen Bank Polska S.A.	PLN	WIBOR + margin	01 Aug 2017	01 Aug 2022			7 811	0	7 811	0	0	0
Guarantees Core East												
Bank Millennium S.A.	PLN		01 Aug 2017	01 Aug 2022	*)	**)	4 532	4 532		1 487	1 487	
bank guarantee/s issued in favour of National Forests			27 Jan 2014	28 Feb 2018			1 676	1 676		1 428	1 428	
bank guarantee issued in favour of of Descont Sp. z o.o.			22 Sep 2015	20 Sep 2019			64	64		59	59	
Letter of Credit EUR 1 092 000			22 Jun 2017	22 Apr 2018			837	837		0	0	
Letter of Credit EUR 1 700 000			29 Aug 2017	30 Sep 2018			1 955	1 955		0	0	
Limit of credit cards East												
Bank Millennium S.A.	PLN		01 Aug 2017	01 Aug 2022	*)	**)	479	0	479	453	20	433
TOTAL CORE EAST							**50 630**	**4 532**	**46 098**	**45 347**	**1 507**	**43 840**

*) Restructuring of Financings took place on 1 August 2017. Original duration until 30 April 2019
**) drawings under old ancillaries have been rolled-into new ancillaries under the new financing
***) Total RCF-limit with Commerzbank AG is EUR 15m, adding cash-line and ancillary used for guarantees

TABLE 28: FINANCINGS CORE WEST (EXLUDING FACTORING AND OPERATING LEASES)

'000 EUR						31 Dec. 2017			31 Dec. 2016		
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)											
BNP Paribas	EUR	EURIBOR + margin	4 Jul 2014	01 Aug 2017	*)	0	0	0	15 000	0	15 000
KfW	EUR	EURIBOR + margin	4 Jul 2014	01 Aug 2017	*)	0	0	0	15 000	0	15 000
Commerzbank AG	EUR	EURIBOR + margin	4 Jul 2014	01 Aug 2017	*)	0	0	0	3 000	0	3 000
Commerzbank AG (Ancillary)	EUR	EURIBOR + margin	4 Jul 2014	01 Aug 2017	*) **)	0	0	0	9 672	0	9 672
Deutsche Bank AG	EUR	EURIBOR + margin	4 Jul 2014	01 Aug 2017	*)	0	0	0	7 500	0	7 500
Deutsche Bank AG (Ancillary)	EUR	EURIBOR + margin	4 Jul 2014	01 Aug 2017	*)	0	0	0	6 000	0	6 000
Alior Bank S.A.	EUR	EURIBOR + margin	01 Aug 2017	01 Aug 2022		5 000	0	5 000	0	0	0
Bank of China	EUR	EURIBOR + margin	01 Aug 2017	01 Aug 2022		10 000	0	10 000	0	0	0
Commerzbank AG	EUR	EURIBOR + margin	01 Aug 2017	01 Aug 2022	***)	12 370	0	12 370	0	0	0
Deutsche Bank AG	EUR	EURIBOR + margin	01 Aug 2017	01 Aug 2022		12 000	0	12 000	0	0	0
Raiffeisen Bank Polska S.A.	EUR	EURIBOR + margin	01 Aug 2017	01 Aug 2022		5 000	0	5 000	0	0	0
Guarantees Core West											
Commerzbank AG	EUR		01 Aug 2017	01 Aug 2022	*) **)	2 630	2 630	0	2 328	2 328	0
bank guarantee issued in EUR						2 257	2 257	0	2 092	2 092	0
bank guarantee issued in PLN						373	373	0	236	236	0
Deutsche Bank AG (Ancillary – Guarantees)	EUR		4 Jul 2014	01 Aug 2017	*)	0	0	0	1 500	0	1 500
Deutsche Bank AG (Ancillary – Guarantees)			01 Aug 2017	01 Aug 2022		3 000	0	3 000	0	0	0
Other debt instruments											
Senior Secured Notes issued	EUR		7 Jul 2014	01 Aug 2017	*)	0	0	0	321 684	321 684	0
Term Loan B (TLB)	EUR		01 Aug 2017	01 Aug 2024		350 000	350 000	0	0	0	0
TOTAL CORE EAST						**400 000**	**352 630**	**47 370**	**381 684**	**324 012**	**57 672**

*) Restructuring of Financings took place on 1 August 2017. Original duration until 30 April 2019
**) drawings under old ancillaries have been rolled-into new ancillaries under the new financing
***) Total RCF-limit with Commerzbank AG is EUR 15m, adding cash-line and ancillary used for guarantees

Liabilities under borrowings from related parties

As at 31 December 2017 and 31 December 2016, the Group did not carry any borrowings from related parties.

Standalone

Loans – Pfleiderer Group S.A.

Loans advanced:

As at 31 December 2017, the Company has loan receivables of 108 213 PLN thousand granted to subsidiary Pfleiderer MDF Grajewo Sp. z o.o. Interest on loans are accrued on a monthly basis. The loan granted to Pfleiderer MDF Grajewo Sp. z o.o. is denominated in PLN and bear interests at 1M WIBOR rate plus margin.

Liabilities under borrowings from related parties

A) On 5 October 2015, Pfleiderer Group S.A. in order to finance the acquisition of a subsidiary, entered into a loan agreement with PCF GmbH. Transfer of funds of EUR 43 587 thousand (PLN 193 919 thousand) took place in January 2016.

On 27 June 2017 the shareholders signed a resolution, pursuant to which profit for 2016 generated by PCF GmbH, a subsidiary, totalling EUR 79 170 thousand should be transferred to Pfleiderer Group S.A. with the reservation that EUR 60 000 thousand shall be offset with the Company's liabilities and the remaining portion of EUR 19 170 thousand shall be paid by 7 July 2017.

On 30 June 2017 the Company and PCF GmbH, the subsidiary, concluded an Offset and Debt Repayment Agreement. As a result, the entire loan amount of EUR 45 524 thousand, consisting of the capitalized principal of EUR 44 837 thousand and interest accrued by 30 June 2017 of EUR 687 thousand was settled to 0.

B) In connection with the acquisition of the subsidiary PCF GmbH, on 5 October 2015 Pfleiderer Group S.A. signed an agreement with Atlantik S.A., under which Pfleiderer Group S.A. took over the obligation of Atlantik S.A. to Pfleiderer Service GmbH regarding the sale of Pfleiderer Group S.A. shares held by Pfleiderer Service GmbH after the settlement of the Secondary Offering to Atlantik S.A.

As of 30 June 2017 part of the obligation of EUR 14 476 thousand was settled as a result of the netting and loan repayment agreement signed with PCF GmbH.

The amount of debt due on 31 December 2017 after the abovementioned settlement was EUR 127 420 thousand.

On 25 September 2017 PCF GmbH, as the lender, and Pfleiderer Group S.A., as the borrower, entered into an upstream loan agreement totalling EUR 36 849 thousand. The purpose of the loan was to provide financing for the treasury share buyback performed by Pfleiderer Group S.A. The loan was granted on 2 October 2017 and subsequently on 11 October 2017, the unused amount of EUR 1 493 thousand was repaid to the lender.

On 31 December 2017 the Company and PCF GmbH concluded the Offset and Debt Repayment Agreement, whereby the interim dividend receivable of EUR 9 000 thousand along with the receivable of EUR 531 thousand resulting from the settlement of intercompany sureties were partially settled with the above loan taken to finance the share buyback. Further to set off the principal loan balance plus accrued interest amounted to EUR 26 118 thousand as of 31 December 2017.

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

As at 31 December 2017, no such events occurred.

Derivatives

On 31 December 2017 the Company did not have any open foreign exchange forward transactions.

Notes: use of proceeds until the date of this Report

The commercial paper programme, carried out pursuant to the agreement of 22 July 2003 with PEKAO S.A., consists of the 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. (formerly Pfleiderer Prospan S.A.) through Bank PEKAO S.A. Thanks to this arrangement, Pfleiderer Group S.A. does not use higher-rate bank loans and Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.) has deposits bearing higher interest than such instruments than 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 2017, the Company's debt under issued notes totalled PLN 146 869 thousand. The notes are used to optimise the management of the Group's financial liquidity, reduce external debt and finance day-to-day operations. Subsequent to 31 December 2017, Pfleiderer Group S.A. rolled over commercial paper in the form of short-term notes on 10[t], 24[t] and 31[t] January 2018.

3.9. MANAGEMENT OF THE PFLEIDERER GROUP'S FINANCIAL RESOURCES IN 2017

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

'000 EUR	31 Dec. 2017	31 Dec. 2016
Equity (attributable to the owners of the Company)	239 902	271 255
Total Equity	239 902	271 255
Non-current liabilities	465 447	472 203
Long term capital (total equity + non-current liabilities)	705 349	743 458
Current liabilities	239 134	201 469

Financial standing of Pfleiderer Group S.A. - Standalone

TABLE 30: STRUCTURE OF FINANCING OF THE COMPANY'S ASSETS AS AT THE REPORTING DATE

'000 PLN	31 Dec. 2017	31 Dec. 2016
Total equity	1 443 238	1 251 318
Non-current liabilities	4 121	356
Long term capital (total equity + non-current liabilities)	1 447 359	1 251 674
Current liabilities	835 025	973 111

In 2017, Pfleiderer Group S.A. financed its operations with own funds and, to a certain extent, with bank borrowings and issues of notes acquired by Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.). Additionally, the Company received PLN 413 318 thousand dividends and interim dividends from subsidiaries and paid out PLN 71 171 dividends to its shareholders. Further to the Company's contribution-in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016, the Company is a pure holding company.

The Company's current liabilities line consists of debt outstanding under short-term notes in issue amounting to PLN 146 869 thousand, intercompany loan taken to finance the share buyback of PLN 108 935 thousand and other financial liabilities of PLN 530 647 representing an obligation taken over from Atlantik S.A. (detailed information was disclosed in the notes to standalone financial statements).

Further to the contribution-in-kind of Operational Activity the Company had no factoring programme in place as at 31 December 2017.

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 2017, 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 2017, 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 31: STRUCTURE OF ASSETS, EQUITY AND LIABILITIES DISCLOSED IN THE CONSOLIDATED BALANCE SHEET

		31 Dec. 2017	31 Dec. 2016
Current ratio	Current Assets / Current liabilities	0.9	1.1
Quick ratio	(Receivables + Cash) / Current liabilities	0.5	0.7
Average collection period	Average trade and other receivables / Revenue / 360	12.3	28.3
Average payment period	Average trade and other payables / Cost of goods sold / 360	75.9	52.3
Inventory turnover ratio	Average inventories / Cost of goods sold / 360	43.7	32.5

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

Credit risk

Further to the contribution-in-kind of Operational Activity of the Pfleiderer Group S.A. to Pfleiderer Grajewo Sp. z o.o. its credit risk is limited as the Company does not conduct Operational Activity and does not have trade receivables from external debtors.

The Company's credit risk exposure relates mostly to loans granted to its subsidiary, Pfleiderer MDF Grajewo Sp. z o.o. of PLN 108 213 thousand.

Currency risk

Further to the Company's contribution-in-kind of Operational Activity to Pfleiderer Grajewo Sp. z o.o. on 31 August 2016, the Company is no longer exposed to currency risk related to business transactions. During the first 8 months of 2016 forward contracts were executed to hedge the currency risk related to sale of products in foreign currencies. Additionally the Company hedged the payment of the purchase price for Pfleiderer GmbH shares.

The Company's currency risk is mainly related to the euro denominated loan from subsidiary, drawn to finance the share buyback (EUR 26 118 thousand), and other finance liabilities related to the obligation taken over from Atlantik SA (EUR 127 226 thousand).

The risk of changes in the prices of financial instruments

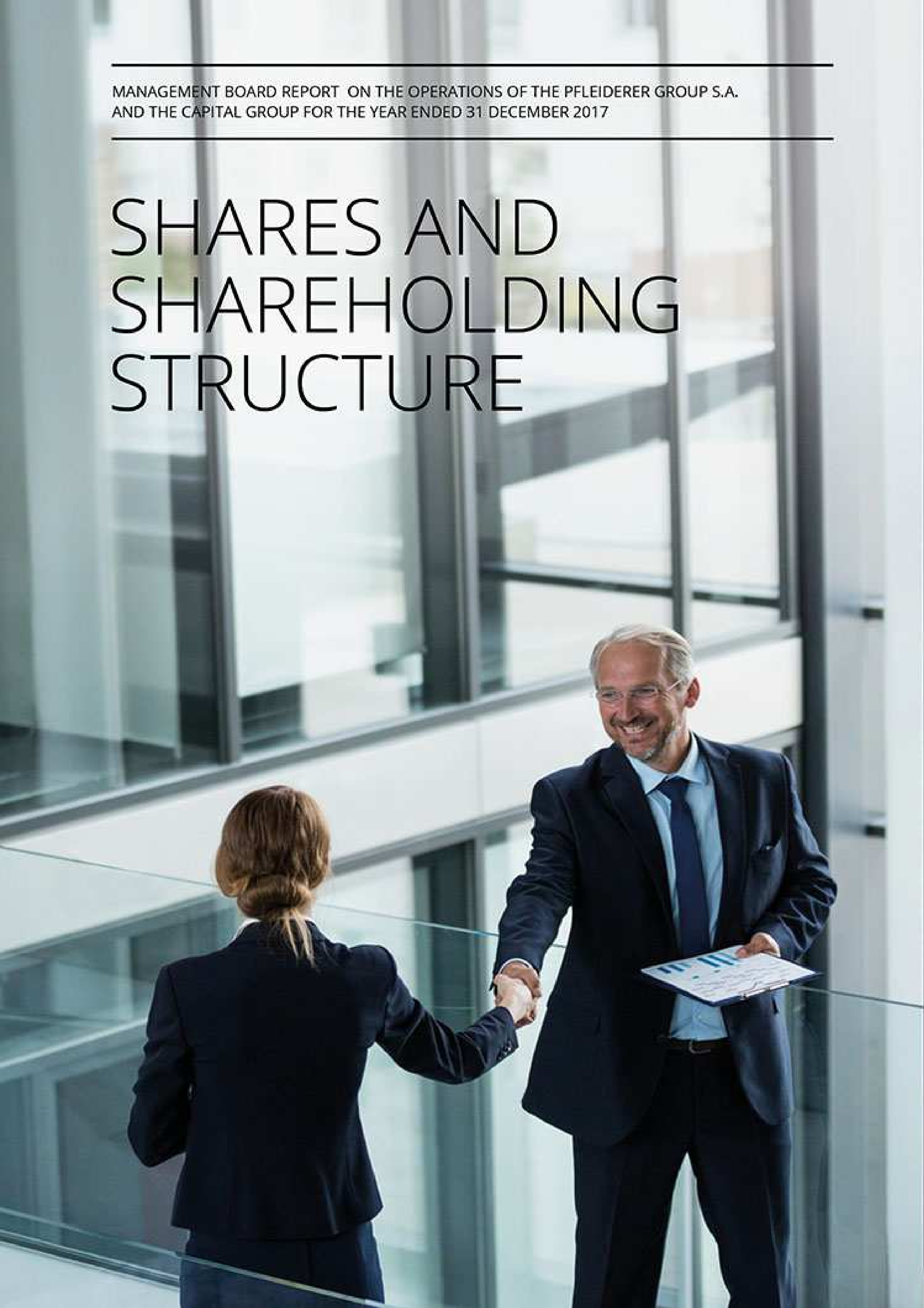
The Company is not exposed to any material price risk associated with financial instruments.

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 and all times. Material cash-flow disruptions were also unlikely due to customer diversification in the first 8 months of 2016 and the pure holding company function performed since September 2016. All extraordinary expenditure is always planned well ahead and accounted for in the liquidity management process.

The Company monitors its liquidity on an ongoing basis, comprising short-term and long-term liquidity (a few years forward).

SHARES AND SHAREHOLDING STRUCTURE



4. SHARES AND SHAREHOLDER STRUCTURE

4.1. SHAREHOLDER STRUCTURE

TABLE 32: SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2017

	Number of shares	% of equity	Number of votes on GM	Percentage of votes on GM
Strategic Value Partners LLC	19 183 149	29.65%	19 183 149	29.65%
Atlantik S.A.	12 474 561	19.28%	12 474 561	19.28%
Nationale-Nederlanden OFE	6 200 000	9.58%	6 200 000	9.58%
Aviva OFE Aviva BZ WBK	5 945 000	9.19%	5 945 000	9.19%
Treasury shares (*)	*3 235 050*	*5.00%*	*3 235 050*	*5.0%*
Other shareholders	17 663 247	27.30%	17 663 247	27.30%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

According to information from the last Extraordinary General Meeting on 18 November 2017

(*) 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.

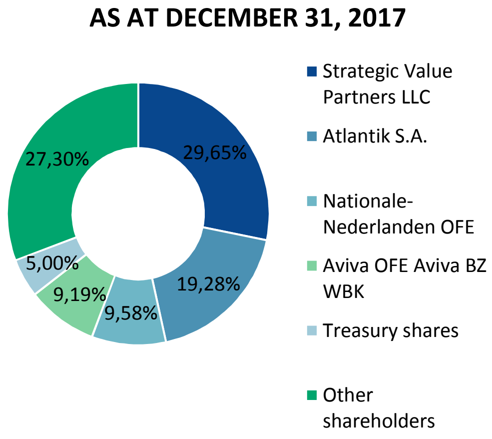
On 19 December 2017 Pfleiderer Group S.A. received from Stichting Lindenhaag ("Stichting"), a foundation incorporated under the laws of the Netherland, having its statutory seat in the municipality of Stichtse Vecht, the Netherlands, a notification on the indirect acquisition of the Company shares. Pursuant to the notification Stichting became a parent company of Atlantik S.A., a Company shareholder, and thus Stichting indirectly acquired 12 474 561 shares in the Company, constituting 19.28% of the share capital and entitling it to 12 474 561 votes at the general meeting, constituting 19.28% of the total number of votes at the Company's general meeting.

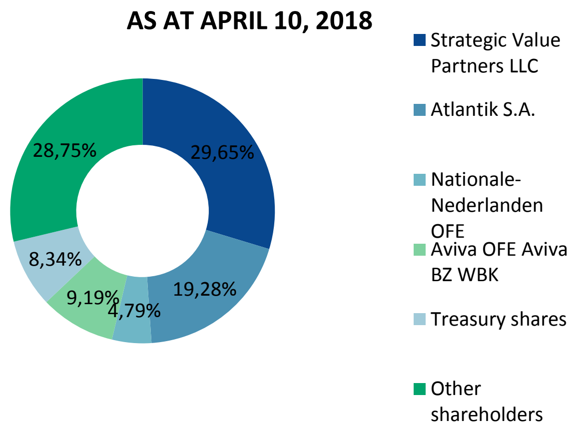
On 12 October 2017 the Company bought back 3 235 050 treasury shares. The purchase of treasury shares was concluded based on an invitation to submit offers for the sale of shares in the Company announced by the Company on 20 September 2017. In addition the treasury shares were purchased in connection 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.

The total nominal value of the treasury shares as of 31 December 2017 was PLN 1 067 566.50, representing approximately 5% of the Company's share capital. The treasury shares entitle the holder thereof to a total of approximately 5% of the votes at the general meeting, which represents approximately 5% of the overall number of votes, provided that, the Company does not exercise the voting rights attached to the treasury shares.

Pursuant to the resolution adopted by the Ordinary General Meeting on 21 June 2017, the shares bought back under the programme may be: (i) offered to eligible individuals authorised to purchase the shares under an incentive programme in the Company; (ii) redeemed; or (iii) otherwise disposed of by the Management Board of the Company with a view to the needs resulting from the Company's business.

FIGURE 17: 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 2016, 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 2017 Pfleiderer Group paid to shareholders above PLN 71 million of dividend

On 25 April 2017 the Management Board of the Parent Company adopted a recommendation regarding the distribution of 2016 net profit for the period from 1 January 2016 to 31 December 2016, providing for a dividend payment to the Company's shareholders in the amount of EUR 16 456 thousand (PLN 71 171 thousand) representing PLN 1.10 per share. The rest of the Parent Company's 2016 earnings totalling EUR 31 123 thousand (PLN 135 885 thousand) is recommended to be allocated to the Parent Company's supplementary capital.

On 21 June 2017 the Ordinary General Meeting of the Parent Company adopted a resolution concerning the distribution of net profit for the period from 1 January to 31 December 2016, providing for a dividend to the Company's shareholders in the amount of PLN 71 171 107.70 representing PLN 1.10 per each share. Additionally, the Ordinary General Meeting of the Parent Company set the following dates: 1) dividend date (the date to prepare the list of shareholders eligible to receive a dividend) of 5 July 2017, and 2) dividend payment date of 19 July 2017.

TABLE 33: DIVIDEND

		2017	2016
Dividend	PLN	71 171 107.70	64 701 007.00
Dividend per share (DPS) (*)	PLN	1.10	1.00
Dividend yield (DY) (**)		2.4%	3.5%

(*) 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***)

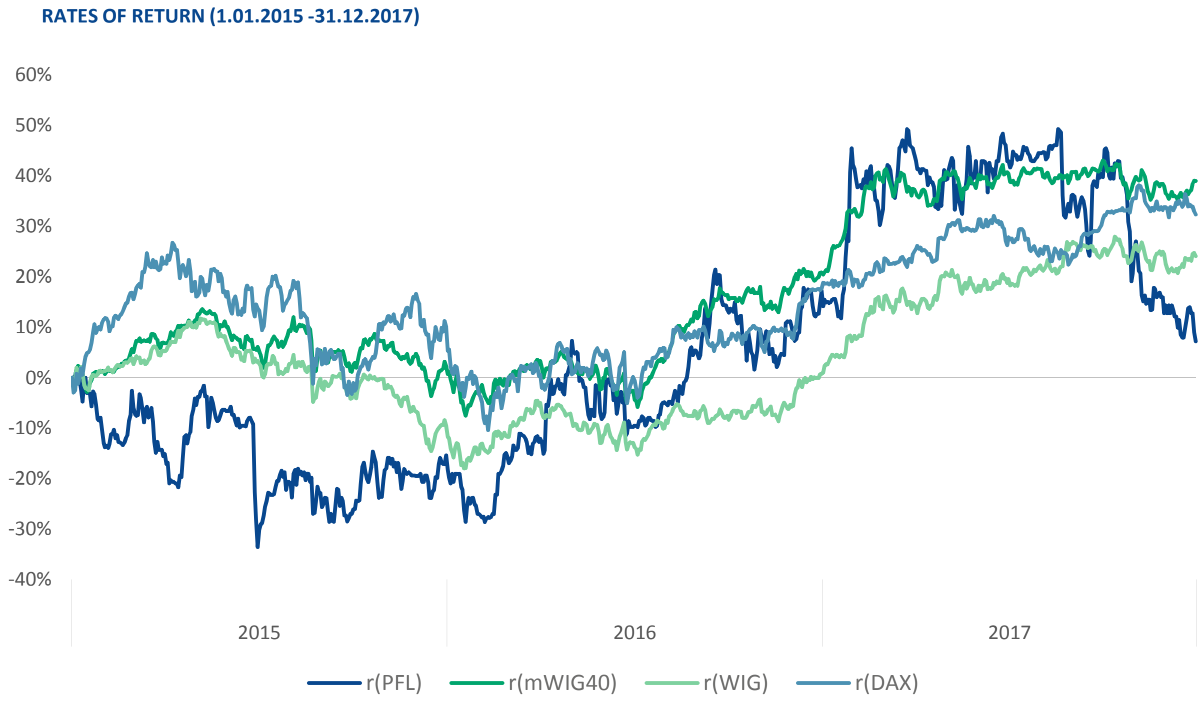
(***) share price two business days before the dividend record date

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

TABLE 34: PFLEIDERER GROUP ON THE WSE – COMPANY HIGHLIGHTS

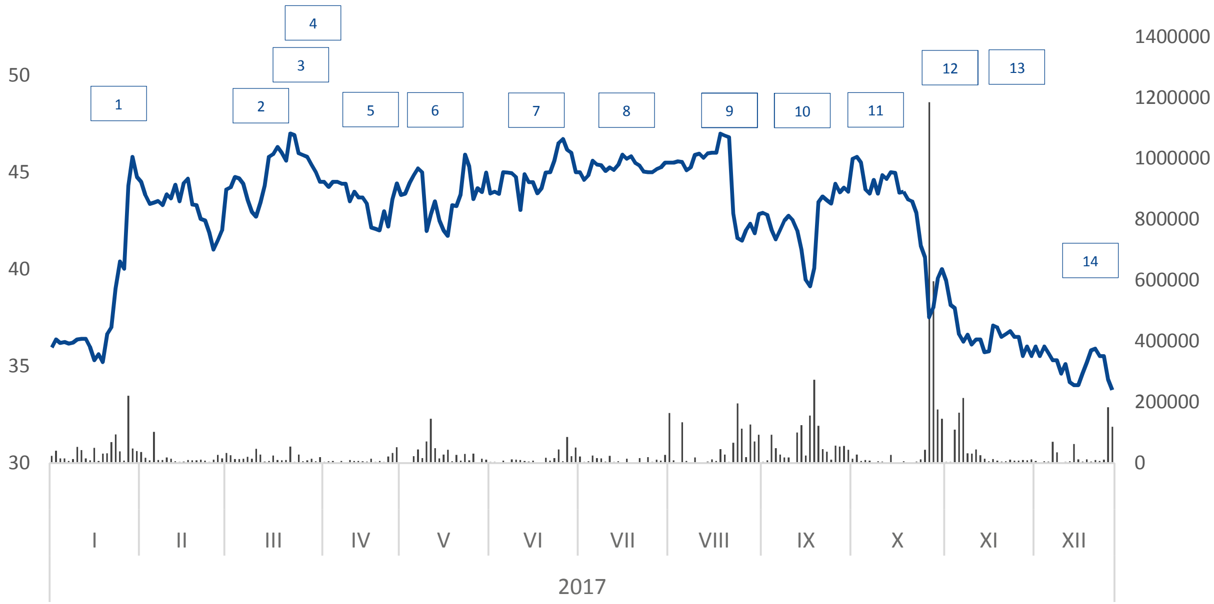
Company data	
Company name	Pfleiderer Group
Abbreviated name	PFLEIDER
Ticker	PFL
ISIN	PLZPW0000017
Bloomberg ticker	PFL PW
Listed since	6.05.1997
Number of outstanding shares	64 701 007
Free float	33.54%
Sector	Wood
Indices	mWIG40 (1.377%) WIG (0.329%) WIG-Poland (0.337%)

FIGURE 18: EVOLUTION OF THE PFLEIDERER GROUP SHARE PRICE COMPARED TO INDICES



- Most of 2017 the share price has been performing better than the WIG index
- One of the most significant growth trigger consisted in the publication of the Growth Strategy in September
- After the announcement of the Q3 results (early November), which were below market expectations, the share price dropped
- Significant share price losses after publication a decision of President of the OCCP in antimonopoly proceedings

FIGURE 19: PFLEIDERER GROUP QUOTATIONS IN 2017



1	20 January: Uplift of S&P's long-term corporate credit rating to 'B+'
2	2 March: Appointment of Tom K. Schäbinger as President of the Management Board and Chief Executive Officer (CEO)
3	22 March: Upgrade of MOODY'S CFR (corporate family rating) for Pfleiderer to 'Ba3' with a stable outlook
4	24 March: Affirmation of S&P's 'B+' long-term corporate credit rating of Pfleiderer Group S.A.
5	26 April: Publication of the 2016 annual financial results
6	11 May: Publication of the quarterly financial results for Q1, 2017
7	21 June: General Meeting sets the dividend payment for 2016
8	19 July: Dividend payment date
9	23 August: Publication of interim financial results for H1, 2017
10	20 September: Adoption of the "Pfleiderer Group Strategy"
11	12 October: Acquisition of treasury shares
12	7 November: Publication of quarterly financial results for Q3, 2017
13	27 November: Notification from the President of the OCCP of the end of evidentiary proceedings in antimonopoly proceedings
14	28 December: Announcement of the decision of President of the OCCP in antimonopoly proceedings

TABLE 35: SHARE-RELATED INFORMATION FOR PFLEIDERER GROUP S.A.

	2017	2016	2015
Number of shares	64 701 007	64 701 007	64 701 007
Closing share price at the last session of the year (PLN)	33.75	36.90	26.65
Capitalisation at the end of the year (PLN m)	2 183.66	2 387.47	1 724.28
Maximum share price (PLN)	47.90	38.50	32.41
Minimum share price (PLN)	32.60	21.61	20.51
Average share price (PLN)	42.21	30.53	26.64
Average trading value per session (PLN m)	1.42	1.18	0.31
Average trading volume per session (units)	35 116	38 249	11 675

TABLE 36: CAPITAL MARKET RATIOS FOR PFLEIDERER GROUP S.A. SHARES

	31 Dec. 2017	31 Dec. 2016	31 Dec. 2015
EPS (PLN)	1.14	1.01	1.77
P/E (x)	29.61	36.59	15.09
P/BV (x)	2.18	1.98	1.45
EV/EBITDA (X)	9.35	10.34	9.82

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 2017 Pfleiderer Group performed a number of activities to improve efficient communication with the capital market.

Activities dedicated to investors – summary

Over 140	Analysts and fund managers present at quarterly conferences (FY 2016, Q1, H1, Q3 2017)
Approx. 170	Meetings with institutional investors organized by different brokers
10	Analytical reports - brokerage houses coverage

Other:

- Presence at nearly twenty international investor conferences
- Participation in foreign roadshows organized by PKO BP and BZ WBK
- Conference on the publication of the Development Strategy to 2021
- Launch of online broadcasts from conferences available to foreign investors and employees
- A new Annual Report (marketing and online)
- IR Newsletter - targeting every month approx. 500 email accounts

Pfleiderer Group won the prestigious ranking "Listed Company of the Year in 2016" ("Giełdowa Spółka Roku 2016")

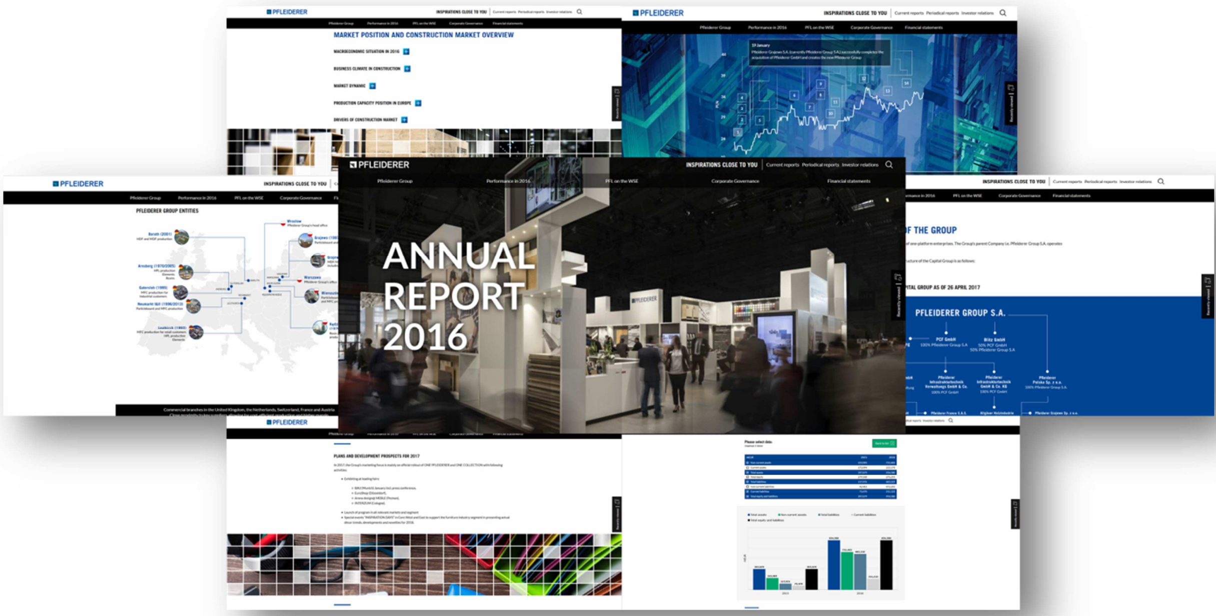
One year after its re-IPO and Group integration of the East and West business core, Pfleiderer Group won the prestigious ranking "Listed Company of the Year", in the category of: "Investor Relations", organised by the "Puls Biznesu" daily and TNS Polska.

The competition "Listed Company of the Year" is the oldest and most prestigious ranking on the market and the prizes are awarded by about 100 brokers, analysts and investment advisors selected randomly. The criteria considered by the experts include the competencies of the management board, prospects for development and investor relations. Honest and explicit communication policy of the Pfleiderer Group, as well as its proactive attitude using traditional and modern communication tools in relations with the Group's investors contributed to it taking first place in the Investor Relations category.

The first Online Annual Report

The 2016 Online Annual Report a dedicated Website has a number of functionalities and is an important source of information about the Group. Financial data, corporate events and achievements in 2016 are presented in a user friendly and attractive way. The online report has several infographics, animations and multimedia content. Intuitive menu and storage make it easy for the user to navigate the site.

In the "Interactive charts" tab, the user can analyse various financial and operating data by comparing them on interactive charts. All the data in the annual report are available in the download centre in the "For download" tab. The interactive service is also available in the mobile mode.



The Online Annual Report is available at: http://annualreport2016.pfleiderer.pl/

Pfleiderer Group Strategy publication

On 20 September 2017 the management of Pfleiderer Group S.A. announced the Group strategy to be achieved by 2021.

On the same day, a conference was held for representatives of the capital market and journalists. During the meeting, the Management Board presented the most important targets of the adopted strategy and responded to questions. At the end of the event, guests had an opportunity to see a dedicated exhibition presenting a wide range of Pfleiderer Group's products.

4.5. RECOMMENDATIONS

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

TABLE 37: RECOMMENDATIONS

▲	7	Buy, Accumulate
	2	Hold
▼	1	Sell

TABLE 38: RECOMMENDATIONS FOR PFLEIDERER GROUP S.A. - SUMMARY

Maximum target price	55.00
Median target price	48.75
Minimum target price	35.00

TABLE 39: RECOMMENDATIONS FOR PFLEIDERER GROUP S.A. SHARES

Target price (PLN)	Recommendation	Share Price on the date of the report (PLN)	Institution	Date
42.50	Buy	36.65	BZ WBK	14.11.2017
46.00	Accumulate	39.50	Noble Securities	31.10.2017
51.50	Accumulate	44.00	BDM	09.10.2017
35.00	Sell	42.90	PKO BP	04.09.2017
53.20	Buy	43.90	BZ WBK	05.07.2017
54.00	Buy	45.60	Trigon	26.06.2017
46.00	Hold	45.90	Deutsche Bank	25.05.2017
55.00	Buy	42.00	Wood&Co	12.05.2017
53.01	Accumulate	45.20	Noble Securities	10.05.2017
43.50	Hold	43.36	BZ WBK	06.02.2017

TABLE 40: INSTITUTIONS ISSUING RECOMMENDATIONS FOR PFLEIDERER GROUP S.A. IN 2017

Institution	Analyst	Contact details
BDM	Krystian Brymora	+48 32 208 14 35 krystian.brymora@bdm.com.pl
BZ WBK	Michał Sopiel	+48 22 586 82 33 michal.sopiel@bzwbk.pl
Deutsche Bank	Tomasz Krukowski	+44 20 7541 2197 tomasz.krukowski@db.com
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
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 BOARD REPORT ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A. AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

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 2016. 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. Under the terms and conditions of the Incentive Programme the Company has granted the above-mentioned members 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 41: MAJOR SHAREHOLDERS OF PFLEIDERER GROUP AT 10 APRIL 2018

	Number of shares	% of equity	Number of votes at the GM	Percentage of votes at the 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%
Nationale-Nederlanden OFE	3 102 115	4.79%	3 102 115	4.79%
Aviva OFE Aviva BZ WBK	5 945 000	9.19%	5 945 000	9.19%
Treasury shares **(*)**	*5 396 933*	*8.34%*	*5 396 933*	*8.34%*
Other shareholders	18 599 249	28.75%	18 599 249	28.75%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

According to information from the last Extraordinary General Meeting on 18 November 2017

(*)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.

On 19 December 2017 Pfleiderer Group S.A. received from Stichting Lindenhaag (“Stichting”), a foundation incorporated under the laws of the Netherlands, having its statutory seat in the municipality of Stichtse Vecht, the Netherlands, a notification on the indirect acquisition of shares in the Company. Pursuant to this notification Stichting became a parent company of Atlantik S.A., a Company shareholder, and thus Stichting indirectly acquired 12 474 561 shares in the Company, which constituting 19.28% of the share capital and entitling it to 12 474 561 votes at the general meeting constituting 19.28% of the total number of votes at the Company’s General Meeting.

On 12 October 2017 the Company purchased 3 235 050 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 20 September 2017. The purchase price for the treasury shares was PLN 47 per share. The total price for all of shares was PLN 152 047 350.

On 7 February 2018 the Company purchased 2 150 883 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 18 January 2018. The purchase price for the treasury shares was PLN 37.5 per share. The total price for all of the shares was PLN 80 658 112.50.

On 27 February 2018 the Company purchased 11 000 treasury shares, with a nominal value of 0.33 PLN each.

The treasury shares were purchased in connection with the implementation of the treasury share buyback programme approved by a resolution of the Company's Annual General Meeting on 21 June 2017.

The total number of treasury shares purchased by the Company as at the date of publication of this report is 5 396 933. The total nominal value of all treasury shares is PLN 1 780 987.89, representing 8.34% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of 8.34% of the votes at the general meeting representing 8.34% of the overall number of votes, provided that the Company does not exercise the voting rights attached to the treasury shares.

Pursuant to the resolution adopted by the Ordinary General Meeting on 21 June 2017 the shares bought back under the programme may be: (i) offered to eligible individuals authorised to purchase the shares under an incentive programme; (ii) redeemed; or (iii) otherwise disposed of by the Management Board with a view to the needs resulting from the Company's business.

On 15 February 2018 the Company received a notification on a decrease in the number of shares held by Nationale-Nederlanden OFE as a result of the Company's buyback programme of treasury shares. After clearing the sale of the shares on 7 February 2018 Nationale-Nederlanden OFE held 3 102 115 shares constituting 4.79% of the share capital.

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 – 16 250 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 16 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

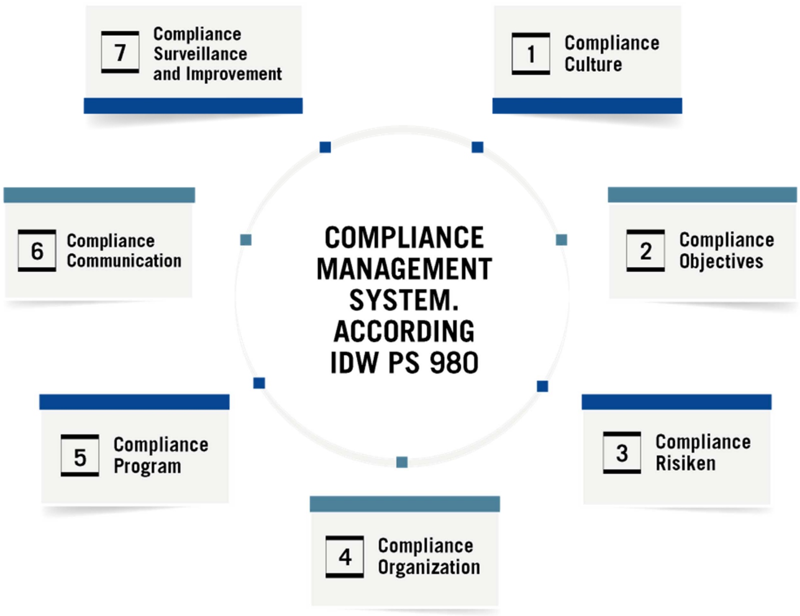
The internal control system is a process put into place by Pfleiderer's Management Board, management and other staff to provide a reasonable assurance that the standalone and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management, the internal 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 20: 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 42: THE COMPOSITION OF THE SUPERVISORY BOARD AS AT 31 DECEMBER 2017

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 28 June 2013 and will expire on 28 June 2018.

The tenures of all the incumbent Supervisory Board members as at 31 December 2017 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 2017. The tenure of a Supervisory Board member also expires in the event of death, resignation or of being recalled from the Supervisory Board. The tenure of 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 26 September 2017 Mr. Stefan Wegener and Mr. Tod Kersten submitted resignations from the Company's Supervisory Board. They became effective on 18 October 2017, i.e. on the date of appointment by the General Meeting of new Supervisory Board members to replace the members who resigned. On 18 October 2017 the Extraordinary General Meeting appointed Mr. Florian Kawohl and Mr. Anthony O'Carroll to the Supervisory Board.

Manner of operation and Supervisory Board powers

The Supervisory Board exercises ongoing 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 Compensation 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 Compensation Committee are composed of at least three members, at least one of them should be an independent Supervisory Board member.

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 2017, 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 Compensation Committee

The purpose of the Nomination and Compensation Committee is to monitor changes in headcount and employee turnover and survey the employee satisfaction level. The Nomination and Compensation 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 Compensation 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 2017, the composition of the Nomination and Compensation Committee of the Supervisory Board was as follows:

1. Zbigniew Prokopowicz – Chairman
2. Jason R. Clarke – Deputy Chairman
3. Michael F. Keppel – Deputy Chairman
4. Anthony O'Carroll - Member
5. Jan Woźniak - Member

Transformation Committee

On 2 March 2016, 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 2017, 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 2017, 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

Tom K. Schäbinger
Chief Executive Officer

Richard Mayer
Chief Financial Officer

Ivo Schintz
Chief Commercial Officer

Dirk Hardow
Chief Operating Officer

TABLE 43: THE COMPOSITION OF THE PFLEIDERER GROUP S.A. MANAGEMENT BOARD AS AT 31 DECEMBER 2017

 **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 the 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.
 **RICHARD MAYER** MEMBER OF THE MANAGEMENT BOARD	Mr. Richard Mayer (born in 1962) has a degree in economics. Mr. Richard Mayer in his professional career worked on the management positions in Reichard, CON MOTO, Wacker Neuson SE. In Wacker Neuson SE he also held the position of Member of the Management Board. Since January 2013 Mr. Richard Mayer has been working for Pfleiderer Group as a CFO. Until January 19th, 2016 Mr. Richard Mayer held a position of Member of Pfleiderer Grajewo Supervisory Board.
 **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.

IVO SCHINTZ

MEMBER OF THE MANAGEMENT BOARD

Mr. Ivo Schintz (born in 1957) is Dutch. He completed National Agricultural College in Deventer in Netherlands with a title of Engineer and obtained International Management MBA title at Thunderbird School of Global Management in USA. Since 1997 Mr. Ivo Schintz has been working for Tarkett SA – a worldwide leader of innovative and sustainable flooring and sports surface solutions - in various management positions. Since 2004 Mr. Ivo Schintz has been holding a position of Vice President, member of executive committee of divison EMEA (Europe, Middle East, Africa) and since 2011 has been holding a position of Area Vice President for Central Europe activity. Previously, Mr. Ivo Schintz worked in various management positions including Philips Lighting BV and Dokkumer Vlagen Centrale BV.

Changes in the Management Board

On 2 March 2017 the Chairman of the Management Board, Mr. Michael Wolff submitted his resignation from this position. On the same day, the Supervisory Board appointed Mr. Tom K. Schäbinger as the President of the Management Board and the Chief Executive Officer. The changes became effective as of 1 June 2017.

On 28 April 2017 Mr. Wojciech Gątkiewicz resigned from being a Management Board member, Chief Sales Officer, effectively from 1 August 2017. On 9 May 2017 Mr. Ivo Schintz was nominated to be a Management Board Member, Chief Sales Officer, effectively from 1 August 2017.

On 13 September 2017 Mr. Rafał Karcz, Management Board member submitted his resignation that became effective on 30 September 2017.

Events after the reporting period

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

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"). Management Board members are in aggregate entitled to receive 2 312 146 Call Option Shares at an exercise price per share of PLN 40. Supervisory Board members are in aggregate entitled to receive 424 600 Call Option Shares for an exercise price per share of PLN 30. 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.

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 2017 the Management Board consisted of Tom K. Schäbinger (President and CEO), Dirk Hardow (COO), Ivo Schintz (CCO) and Richard Mayer (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 44: EXECUTIVE COMPENSATION OF THE COMPANY'S MANAGEMENT BOARD INCLUDING BONUSES

'000 EUR	2017	including bonus for 2017	2016 *	including bonus for 2016
Tom K. Schäbinger (from 1 June 2017)	487	0	0	0
Dirk Hardow (from 1 November 2016)	443	0	74	25
Ivo Schintz (from 1 August 2017)	129	0	0	0
Richard Mayer (from 2 March 2016 till 31 March 2018)	653	0	613	350
Rafał Karcz (till 30 September 2017)	161	0	307	92
Wojciech Gątkiewicz (till 1 August 2017)	197	0	281	93
Michael Wolff (till 1 June 2017)	845	65	755	234
Dr. Gerd Schubert (till 1 June 2016)	0	0	457	21
Dariusz Tomaszewski (till 2 March 2016)	0	0	13	0
TOTAL	2 915	65	2 500	815

(*) The amount presented in the annual consolidated financial statements for 2016 as executive compensation (EUR 2 517 thousand) is calculated on a cash basis, while EUR 2 500 thousand is calculated on an accrual basis for the sake of comparison.

In addition to the regular compensation of Mr. Rafał Karcz, the Group recorded an expense for severance pay due to his early termination totalling EUR 682 thousand.

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 Wieruszów sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Benelux B.V.:

TABLE 45: COMPENSATION OF THE MANAGEMENT BOARD AT PFLEIDERER WIERUSZÓW SP. Z O.O. (FORMERLY PFLEIDERER PROSPAN SP. Z O.O.), PFLEIDERER POLSKA SP. Z O.O. AND PFLEIDERER BENELUX B.V.

'000 EUR	2017	including bonus for 2017	2016*	including bonus for 2016
Ivo Schintz (from 1 August 2017)	38	0	0	0
Wojciech Gątkiewicz (till 31 December 2017)	111	0	91	0
Rafał Karcz (till 30 September 2017)	0	0	12	0
Dariusz Tomaszewski (till 2 March 2016)	0	0	137	0
TOTAL	149	0	240	0

(*) The amount presented in the annual consolidated financial statements for 2016 as executive compensation at Pfleiderer Wieruszów Sp. z o.o. (EUR 333 thousand) is calculated on a cash basis, while EUR 240 thousand is calculated on an accrual basis for the sake of comparison.

In addition to the regular compensation of Mr. Wojciech Gątkiewicz, Pfleiderer Polska Sp. z o. o. recorded an expense for severance pay due to his early termination totalling EUR 229 thousand.

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 – 16 250 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 2017 Management Board members have the following contracts:

- Mr. Tom K. Schäbinger – contract with PCF GmbH for 3 years beginning from 1 June 2017 until 31 May 2020; in the event of termination before this date he is entitled to the equivalent of a maximum of two years of basic salary limited to the remaining term of his contract. His contract contains a non-compete covenant for 12 months after expiration of the contract in exchange for compensation payable by PCF GmbH equal to 50% of his average compensation in the 12 months preceding the expiration date of his contract. PCF GmbH may waive the post-contractual non-compete covenant subject to giving 3 month's notice.
- Mr. Richard Mayer – contract with PCF GmbH until 31 December 2018; in the event of early termination he is entitled to a maximum of two year of basic salary limited to the remaining term of his contract.
- Mr. Dirk Hardow – contract with PCF GmbH concluded for 3 years beginning from 1 November 2016 until 30 October 2019; in the event of early termination he is entitled a maximum of two years of basic salary limited to the remaining term of his contract.
- Mr. Ivo Schintz – contract with Pfleiderer Group S.A. concluded for an indefinite period of time; his contract may be terminated subject to 12 month's notice by the employer and 6 month's notice by the employee. Another contract with Pfleiderer Benelux B.V. concluded for an indefinite period of time; his contract may be terminated subject to 12 month's notice by the employer and 6 month's notice by the employee. His contract contains a non-compete covenant for 12 months after expiration of the contract in exchange for compensation equal to 50% of his compensation in the 12 months preceding the contract's expiration date. The Company may rescind the non-compete covenant.

Furthermore, after 31 December 2017 the following agreements were executed with the Company's Management Board members:

On 27 February 2018 PCF GmbH executed a supplement to the contract with Mr. Dirk Hardow providing a non-compete covenant for 12 months after the contract's expiration in exchange for compensation payable by PCF GmbH equal to 50% of his average compensation for the 12 months preceding the contract's expiration date. PCF GmbH may waive the post-contractual non-compete covenant subject to 3 month's notice.

On 27 February 2018 PCF GmbH executed a termination agreement with Mr. Richard Mayer to terminate his contract with effect as of 30 April 2018. Consequently, Mr. Mayer is entitled to severance pay of EUR 276 666.

5.7.2. SUPERVISORY BOARD

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

TABLE 46: COMPENSATION OF PFLEIDERER GROUP S.A. SUPERVISORY BOARD MEMBERS IN THE REPORTING PERIOD

'000 EUR	2017	2016
Zbigniew Prokopowicz	315	193
Michael F. Keppel	94	88
Jason R. Clarke	0	0
Florian Kawohl (from 18 October 2017)	0	0
Anthony O'Carroll (from 18 October 2017)	0	0
Krzysztof Sędzikowski	79	63
Jan Woźniak	59	58
Tod Kersten (till 18 October 2017)	29	20
Stefan Wegener (till 18 October 2017)	86	87
Christoph Mikulski (till 29 June 2016)	0	24
Paolo Antonietti (till 29 June 2016)	0	49
Gerd Hammerschmidt (till 19 January 2016)	0	2
Richard Mayer (till 19 January 2016)	0	2
Jochen Schapka (till 19 January 2016)	0	2
TOTAL	662	588

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 2017.

The present term of the Supervisory Board began on 28 June 2013 and will expire on 28 June 2018.

The tenures of all incumbent Supervisory Board members as at 31 December 2017 will expire at the latest on the date of holding the General Meeting approving the financial statements for the last full financial year during which they held their position as Supervisory Board members, i.e., on the day of adoption of the resolution on the approval of financial statements for the financial year ended 31 December 2017. The tenure of a Supervisory Board member also expires in the event of death, resignation or of being recalled from the Supervisory Board. The tenure of Supervisory Board members appointed before the end of a given term expires at the same time as of the remaining Supervisory Board members.

Changes in Supervisory Board

On 26 September 2017 Mr. Stefan Wegener and Mr. Tod Kersten submitted resignations being members of the Company's Supervisory Board. Their resignations became effective on 18 October 2017, i.e. on the date of appointment by the General Meeting of new Supervisory Board members to replace the members who submitted their resignations. On 18 October 2017 the Extraordinary General Meeting appointed Mr. Florian Kawohl and Mr. Anthony O'Carroll to 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

Determination of the detailed terms of the share buyback

On 18 January 2018 Management Board established the detailed terms of the share buyback of Pfleiderer Group S.A. They were approved by the Supervisory Board the very same day.

Filing the appeals against the decision of the OCCP

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

Acquisition of treasury shares

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 these treasury shares, the Company holds 3 235 050 treasury shares in the Company, which in total represents approximately 8.3% of the Company’s share capital.

Change in the Management Board

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

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE PFLEIDERER GROUP S.A. AND THE CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

NON-FINANCIAL STATEMENT

7. NON-FINANCIAL STATEMENT

7.1 MANAGEMENT

7.1.1 BUSINESS MODEL AND STRATEGIC DIRECTIONS OF DEVELOPMENT

Pfleiderer Group, is a leading European manufacturer of eco-friendly, wood-based panel solutions with 123 years of experience, specialized in the production of materials for the furniture, interior decoration and construction industry. The Group offers a wide range of premium products starting from furniture boards, kitchen worktops, HPL laminates to artificial wall coverings. The entire product assortment and underlying production processes are aligned to the high sustainability and low-emission standards to which Pfleiderer is committed.

The company is headquartered in Wrocław (Poland), employs more than 3.500 employees and operates nine manufacturing facilities located in Poland (4) and Germany (5) as well as sales branches in the UK, the Netherlands, France, Switzerland, Austria and Romania. Pfleiderer Group is listed as Pfleiderer Group S.A. on the Warsaw Stock Exchange.

FIGURE 21: OPERATING STRUCTURE OF THE GROUP AS OF 10 APRIL 2018

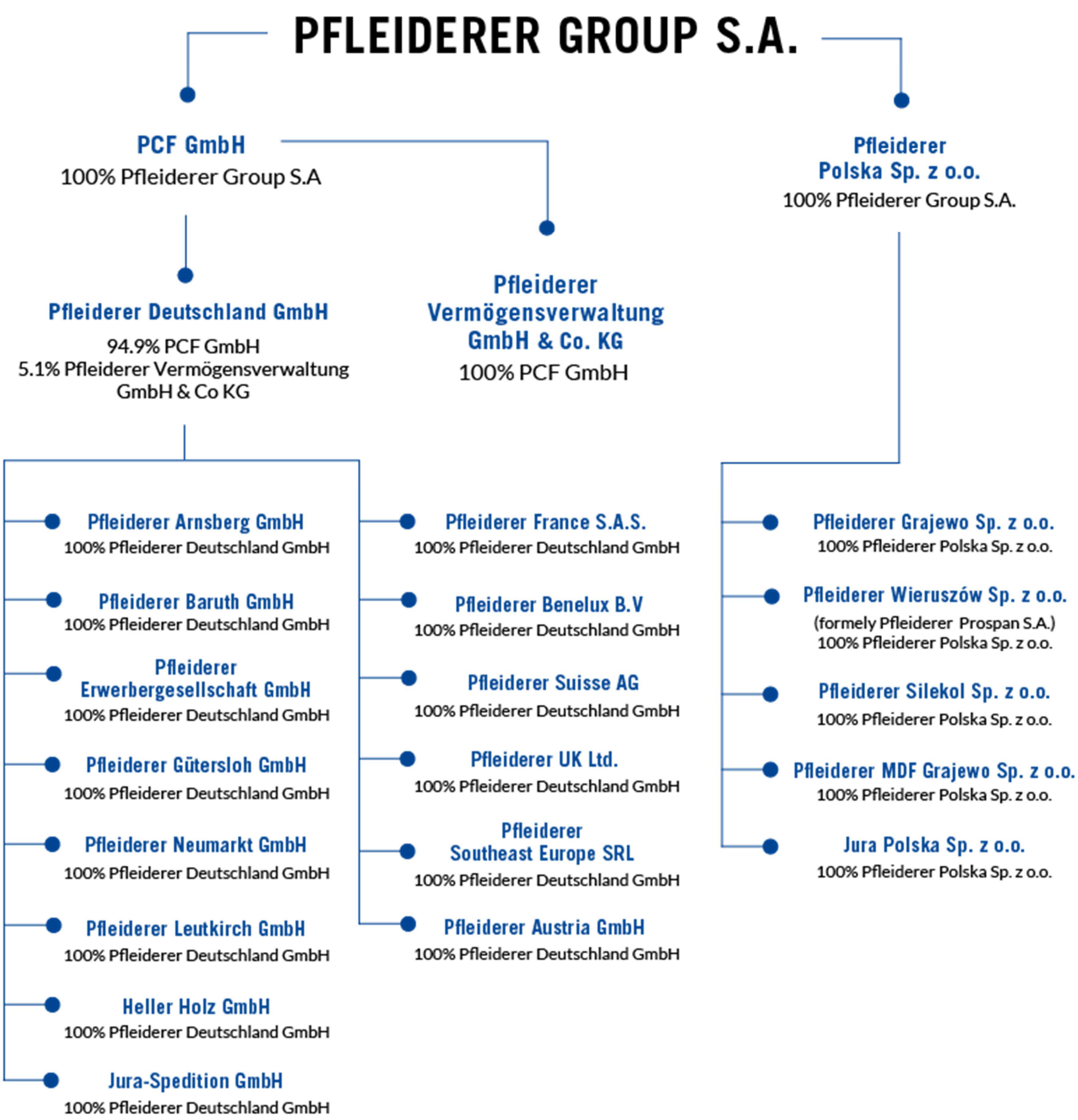


TABLE 47: LIST OF THE GROUP'S ENTITIES WITH THEIR ACTIVITIES (AT THE TIME OF THE REPORT'S PUBLICATION)

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,** Leutkirch, Germany
		Pfleiderer Arnsberg GmbH, Neumarkt, Germany
		Pfleiderer Baruth GmbH, Baruth, 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 GmbH,** Neumarkt, Germany
		Pfleiderer Vermögensverwaltungs GmbH & Co. KG, Neumarkt, Germany
		Pfleiderer Infrastrukturtechnik GmbH & Co. KG, Düsseldorf (in insolvency), Germany
		Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH, Düsseldorf (in insolvency), Germany
		Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH, Aulendorf (in liquidation), Germany
		Blitz 11-446 GmbH, Neumarkt (in liquidation), Germany

FIGURE 22: PFLEIDERER GROUP PRODUCTION PLANTS

TABLE 48: SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2017

	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%
Nationale-Nederlanden OFE	6 200 000	9.58%	6 200 000	9.58%
Aviva OFE Aviva BZ WBK	5 945 000	9.19%	5 945 000	9.19%
Treasury shares (*)	*3 235 050*	*5.00%*	*3 235 050*	*5.00%*
Other shareholders	17 663 247	27.30%	17 663 247	27.30%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

According to information from last Extraordinary General Meeting held on 18 November 2017

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

FIGURE 23: PRODUCT RANGE

		VALUE - ADD PRODUCTS		BASIC PRODUCTS [2]		OTHER
PRODUCTS		MELAMINE-FACED CHIPBOARD (MFC)	HIGH PRESSURE LAMINATES (HPL)/ELEMENTS	RAW PARTICLEBOARD (RAW PB)	MEDIUM-DENSITY /HIGH-DENSITY FIBERBOARD (MDF/HDF)	OTHER PRODUCTS: ELECTRICITY[1], RESIN SILEKOL, IMPREGNATION PAPER, EDGES AND PAPER FOILS
% OF SALES (2017)		62%		27%		11%
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 fiberboard and high-density fiberboard)
Source: Pfleiderer, Association of German Timber Industries (VHI)

TABLE 49: PFLEIDERER GROUP HIGHLIGHTS IN 2017

Net revenue [000' EUR]	1 006 395
Net profit [000' EUR]	17 139
Number of employees	3 521
Number of production plants	9
Share price as at 31.12.2017 [PLN]	33.75
Number of traded shares	64 701 007

Pfleiderer Group strategy

Smart market segmentation will drive our sales strategy and will enable a value-added customer proposition

Our salesforce will harvest the **new capacity,** implement **smart pricing** and **active product portfolio management**

We will focus on **operational excellence** & **disciplined capacity** debottlenecking

Attractive shareholder value will be delivered by strong cash generation, an attractive dividend policy, possible additional share buyback programmes and open investor relations

Our culture will become more cost conscious and performance driven

On 20th September 2017 the management of Pfleiderer Group S.A. announced the strategy for the Group until 2021. Under the umbrella of the company's "Diamond strategy", Pfleiderer has defined a strategic roadmap in six key dimensions: shareholder value creation, sales and marketing excellence, operations excellence, corporate culture and people. The implementation of the development plan in these areas is supposed to translate actions into a stable growth of the Group's value to its shareholders.

The main goals and objectives of the strategy published by Pfleiderer Group include:

Sales approx. EUR 1.2 bn	Sales to be generated in the year ended 31 December 2021
EBITDA margin at least 16%	EBITDA margin to be achieved in the year ended 31 December 2021
CAPEX EUR 70 m p. a.	Capital expenditures (including EUR 20 million of maintenance capital expenditures p.a.) in the amount of EUR 70 m per annum.
Net financial leverage between 1.5 and 2	Target level of net financial leverage between 1.5 and 2 - maintaining a safe level of debt
Equity ratio above 25%	Return on equity above 25%
Dividend payment up to 70%	Percentage of net earnings allocated as a dividend (the dividend policy has not been altered)

More details on the Pfleiderer Group's strategy are covered in the investor presentation, published in September 2017 [http://www.investor.pfleiderer.pl/pfleiderer-group-strategy-investor-presentation].

Supply chain

Pfleiderer employs integrated supply chain management ("SCM") with a group-wide monthly overview of production capacity, demand and utilisation to optimize production capacity utilisation and switch orders between regions and plants.

Supply chain management ("SCM") is the link between supply, manufacturing and distribution. SCM also oversees the delivery logistics of its decentralised delivery system.

Total capacity is centrally managed but plants in Poland and Germany are currently primarily operated individually by the plant management to enable quick decision-making and agile responses to market evolution. However, a number of centralised functions ensure operational synergies and facilitate benchmarking of plants. This structure also allows the Group to identify regional weaknesses in quality assurance and implement solutions to be rapidly, including the transfer of certain products to more cost-effective production sites.

Logistics

Fleet management and logistics in Poland are carried out by JURA Polska Sp. z o.o. German plants use a centrally managed fleet of heavy goods vehicles operated by JURA-Spedition GmbH.

Logistics management in the Group focuses on continuous improvement of services and optimisation of stock levels throughout the supply chain. Delivery time varies by product and destination. The main means of transport are lorries because the Group supplies mainly wood-based raw materials within a radius of around 50-200 km from a given plant and distributes finished products within a radius of 150-600 km.

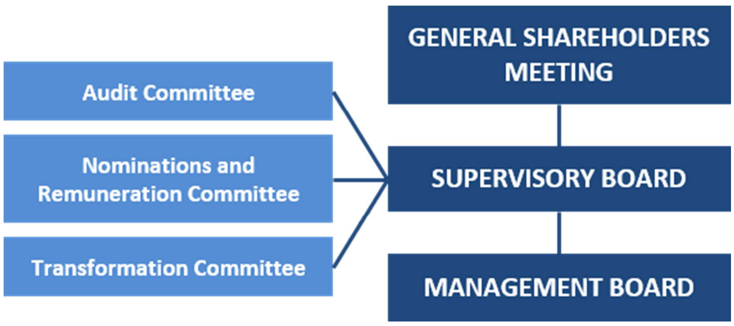
The production plants in Poland deliver a significant portion of supplies with the use of customers' means of transport. Customers tend to order large quantities as part of a single delivery, whereby the lorries use their full load capacity. In Germany, most products are delivered to customers by the Company itself because customers usually order smaller quantities. In its endeavours to limit the environmental impact exerted by transport, Pfleiderer organises the process to maximise the capacity of lorries by combining orders from different customers. For long haul destinations, the Group reviews alternative transport solutions such as container loads in rail or sea transport.

JURA Polska Sp. z o.o. also manages a permanent, contracted external fleet through which products are partially transported. Deliveries from Silekol to factories are performed using rail transport or tankers.

JURA-Spedition GmbH was one of the first companies in Germany, to replace its entire fleet of delivery vehicles in 2013 by responding to the new Euro 6 standard for exhaust emission standards to improve air quality in the EU. Consequently, Jura Spedition is even more environmentally-friendly. Jura-Spedition is responsible for approximately 15% of Western transport of products. The remaining 85% of the demand for transport is satisfied by external suppliers chosen and managed centrally by the Company. Jura-Spedition cooperates with regional and international transport companies.

7.1.2 CORPORATE GOVERNANCE

FIGURE 24: CORPORATE BODIES



Supervisory Board

The Supervisory Board oversees the Company's operations. It consists of at least five, seven or nine members (currently seven). The number of Supervisory Board members is determined by the General Meeting. The Supervisory Board's term of office is 5 years. The mandates of Supervisory Board members expire on the day of the General Meeting approving the financial statements, balance sheet and profit and loss account for their last year in office. Supervisory Board meetings are held at least three times in the financial year.

Supervisory Board Committees

Committees are appointed by the Supervisory Board from among its members. The tasks, organisation and mode of operation of Supervisory Board Committees are set out in separate regulations adopted by the Supervisory Board. Each Committee may appoint experts from outside the Supervisory Board to assist in the performance of its tasks.

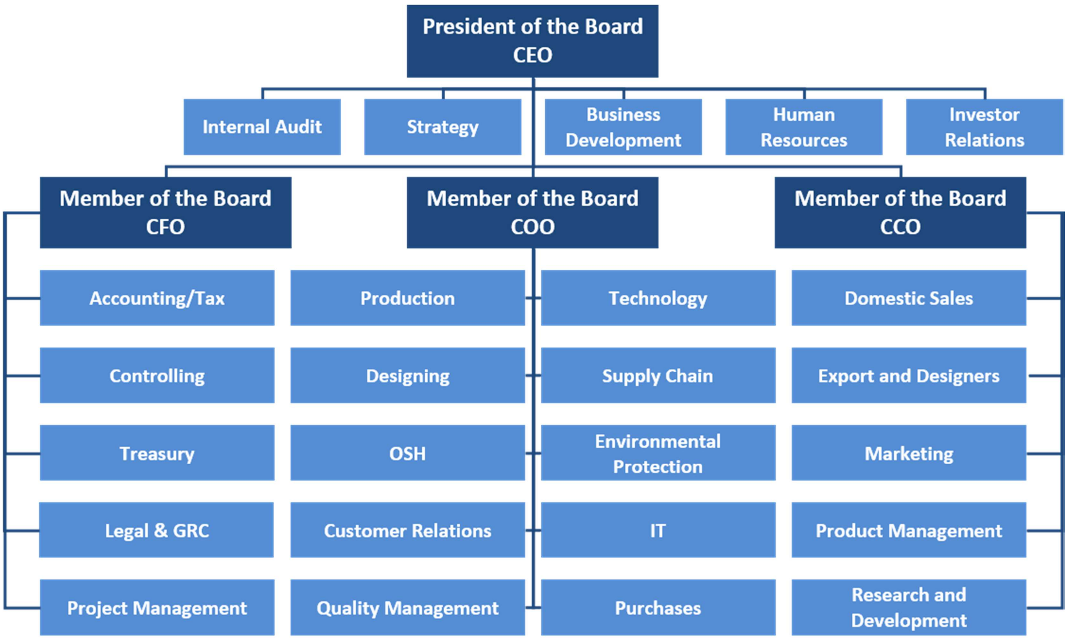
TABLE 50: THE SUPERVISORY BOARD'S STANDING COMMITTEES, THEIR TASKS AND RESPONSIBILITY

Audit Committee	Nominations and Remuneration Committee	Transformation Committee
• Monitoring the process and correctness of financial reporting • Effectiveness of internal control, internal audit and risk management systems, review of the effectiveness of the external audit process • Reviewing the terms of election, appointment and dismissal of the statutory auditor and monitoring of the cooperation • Monitoring the implementation of the guidelines set by statutory auditors, board members and employees	• Monitoring changes in employment, employee turnover and employee satisfaction surveys • Overseeing the Company's payroll policy, including monitoring of the employee reward and bonus system as well as other HR matters	• Supporting the implementation of the "One Pfleiderer" initiative • Gathering all necessary information about the Company's current operations and future strategic plans • Assisting the Supervisory Board in making the right decisions regarding motions submitted to the Supervisory Board by the Management Board, including changes in the Company's structure as well as approval of budgets, medium-term plans, M&A and any unplanned capital expenditures • Concentration on relations between the Company's bodies, shareholders and other stakeholders, such as employees

Management Board

The Management Board represents the Company in contacts with third parties. All Management Board members have the right and obligation to manage the Company's affairs as part of their regular activities. The scope of competence and activities of each Management Board member as part of ordinary business activities is presented in the Company's Management Board rules and regulations.

FIGURE 25: SPLIT OF THE MANAGEMENT BOARD'S POWERS



Management systems

Pfleiderer Group strives to manage quality and environmental aspects in line with the most stringent standards. The Company manages energy effectively, follows rigorous standards in supply chain management in an integrated manner and manages risk to minimise the risk of using illegally harvested timber. As a socially and environmentally responsible business, the Company implemented a certified waste disposal system in some of its factories in Germany. In Poland, it has implemented a certified occupational safety and health management system. The Company is compliant with all the requirements of all the implemented management systems. It monitors them and regularly improves its performance as evidenced by the regular audits administered by organisations performing third party certification.

TABLE 51: IMPLEMENTED MANAGEMENT SYSTEMS

	ISO 9001	ISO 14001	ISO 50001	FSC	PEFC	EfbV	OHSAS
Arnsberg	X	X	X	X	X		
Baruth	X	X	X	X	X	X	
Grajewo	X	X	X	X	X		X
Gutersloh II	X	X	X	X	X	X	
Gutersloh III	X	X	X	X	X		
Leutkirch	X	X	X	X	X		
Neumarkt II	X	X	X	X	X		
Neumarkt III	X	X	X	X	X	X	
Wieruszów	X	X	X	X	X		X

7.1.3 COMPLIANCE, INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Compliance and ethics

Pfleiderer Group attaches great significance to corporate governance. That is why compliance and business ethics play such an important role. To ensure compliance with legal and ethical requirements, the Company implemented an Internal Control System and a compliance system to mitigate risks (The GRC department was created). It also adopted the "Business

Conduct Guidelines" (BCG) to serve as a signpost for employees to indicate what we deem to be appropriate and ethical conduct.

Business ethics related to the relations between the company and its clients, business partners, employees and competitors as well as playing an active role in the surrounding environment.

Employees at all levels are therefore expected to comply with legal regulations, socially recognised norms of behaviour, accepted standards and our organisation's values, respect diversity and human rights in the workplace and the environment and avoid conflicts of interest.

The Company's management is obliged to provide active support in the dissemination of BCG and procure that they are instilled permanently and effectively. The Company does not tolerate half measures, violations or infringements involving unfair and improper actions that may harm the organisation.

All employees may file a personal complaint or report violations of BCG or other regulations, including internal guidelines. For this purpose, they should furnish information using the channels stated in the document. This applies to violations committed by other employees, violations of the applicable rules of social coexistence and business ethics committed by contractors and unfair competition practices. Employees who in good faith report suspected violations of the law or internal guidelines need not fear the consequences of whistleblowing if they do not violate the applicable rules and regulations.
If an employee infringes the Business Conduct Principles or related guidelines, and his or her voluntary report can protect the Company from sustaining damage, then this fact will be treated in his or her favour. Whistleblowers who level false accusations will face the consequences.

In the event of conduct violating the applicable ethical and compliance principles, employees, regardless of the sanctions provided for by law, will be held accountable for the disciplinary consequences, depending on the type and the gravity of the violation, ranging from an informal admonition to suspension or immediate dismissal.

Pfleiderer is fully compliant with the rule of law and order, that is, it fully complies with laws and state directives / recommendations and is committed to applying the principles of ethical and socially responsible conduct in management and cooperation. Strategically and operationally, it strives to abide by the highest ethical and legal standards (Compliance). Pfleiderer treats ethics as an integral part of compliance.

Pfleiderer's Compliance Management System primarily aims to attain the following goals:

- prevent corruption,
- comply with antitrust laws,
- protect the environment and follow occupational safety and health.

In order to improve communication and implement actions entailing Governance, Risk, Compliance (GRC), coordinators for the Group's eastern and western parts (Core West and Core East) were appointed in Germany and Poland.

FIGURE 26: GRC MANAGEMENT

The Pfleiderer Group's compliance culture is based on the overall commitment demonstrated by the management and employees to comply with all internal guidelines and laws. This commitment was defined in the "BCG" document in force at Pfleiderer. All relevant internal compliance guidelines are available to employees on the GRN Intranet site as well as on the SharePoint platform. All new employment contracts include references to the principles contained in "BCG" and employees are obliged to confirm that they are well-versed with them.

The Compliance Committee was established to define the main direction of the Compliance Management System (CMS), analyse events and propose solutions. The Committee also has the power to assess and issue recommendations regarding the proper response to conduct in violation of the compliance principles, including unethical behaviour. The Management Board and the Supervisory Board receive quarterly reports on the area in question.

To ensure that its employees are fully aware of compliance, Pfleiderer pursues a regular training process. The Company has developed a training concept consisting of e-learning (SAM) and direct training in antitrust, anti-corruption, environmental protection, health, safety and money laundering. The training covers various groups of employees with a well-chosen thematic range. In addition, the GRC Department oversees compulsory training in which all employees participate, and which are adjusted to their risk profile.

Internal control system

The internal control system at Pfleiderer Group, in addition to risk management and compliance, constitutes an integral part of the Group´s Governance Risk and Compliance System. The internal control system as well as the rules of risk management policy are approved by the Supervisory Board. The Management Board, other managers and all other Pfleiderer employees are responsible for implementing the organisation system.

Its purpose is to establish a systematic process of measuring and controlling the organisation in terms of compliance with legal and internal guidelines and protection against damages that may be caused by Group employees or persons outside the organisation. The Pfleiderer process risk catalogue includes an overview of approximately 80 key process risks.

Risk management - identification of social and environmental risks

The risk management system in Pfleiderer Group covers all risks that may arise in the course of its business. The fundamental objectives of risk management include the following:

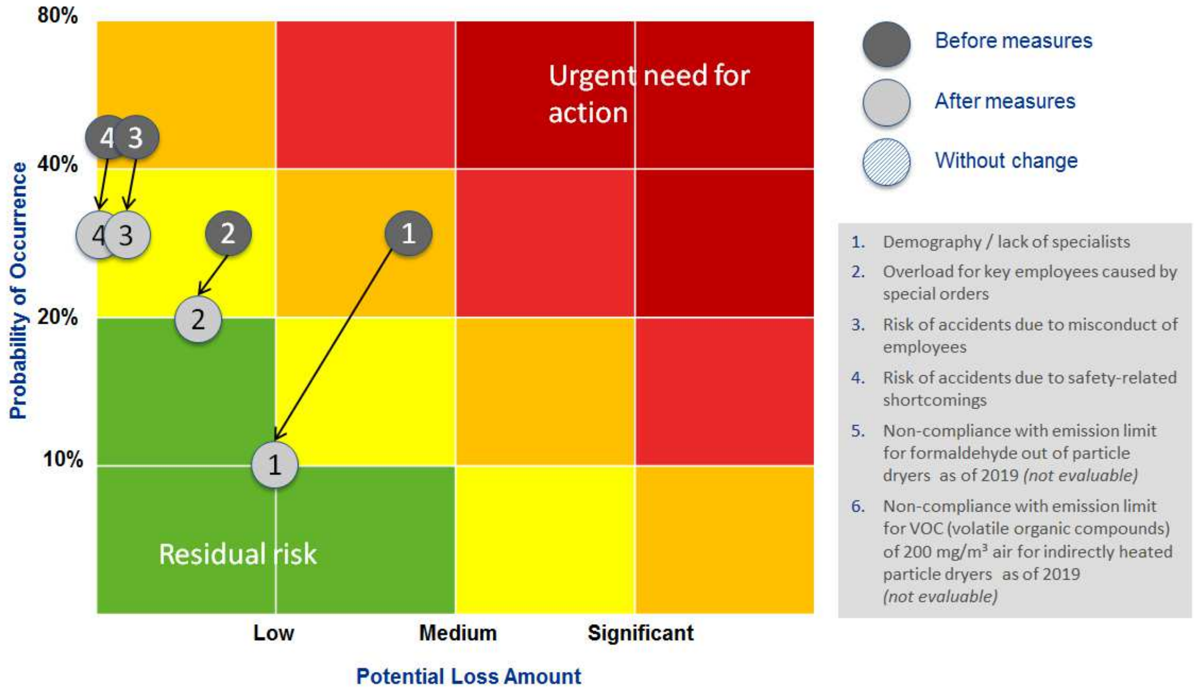
- Ensuring the company's future success
- Ensuring that the company's goals are met
- Enhancing goodwill in the long-term
- Optimising risk costs
- Identifying risks that may put resources in jeopardy

- Identifying all pertinent risks

Pfleiderer takes a two-pronged approach to risk management: on one hand, its system identifies potential adverse impacts, while on the other it identifies opportunities to mitigate them, for example by implementing positive changes. At the end of 2017, there were 84 risks and 10 opportunities identified throughout Pfleiderer Group.

Identification and assessment of individual risks and opportunities takes place at the level of the holding company in cooperation with department managers and supervising departments. Risk owners report their significant risks and opportunities (defined to mean exerting an adverse or positive impact of EUR 100,000 or more) on a monthly basis. The Risk Manager monitors and measures them in the entire portfolio. The risk report is distributed quarterly to the Management Board and the Compliance Committee. The Supervisory Board is advised of the identified risks and opportunities at least once a year.

The matrix below presents an overview of the identified key social and environmental risks Pfleiderer Group faces along with their potential magnitude of loss and the likelihood of their occurrence. All risks presented are analysed and tracked regularly which has made it possible to reduce the original estimates of their materialisation.



Social risks

Due to demographic changes, Pfleiderer is exposed to a potential lack of specialists **(1).** This results, among others, from a high average age of employees, especially in production in the whole Group. In addition, there are too few young people who can be recruited to replace the know-how gap created by departing employees. To mitigate this risk, among the many activities taken, Pfleiderer prepares a succession plan and offers training.

A large number of new projects outside of everyday business activities combined with a relatively flat organisational structure leads to the risk of overloading key employees **(2)**. Consequently, there is a risk of the sick leave rate trending upward over time due to overload or the number of employees leaving the Company. In order to improve the situation, a qualification matrix was prepared to stimulate and enhance the transfer of know-how in the organisation.

There is a higher risk of accidents in the manufacturing industry. They are mainly caused by improper behaviour by employees **(3)**, not by the lack of appropriate security systems or tools **(4)**, which can also be recognised due to a lower potential loss of technical risk. The protection of employee health and life is Pfleiderer's key focus. Therefore, a number of measures have been implemented, such as safety-related training and the Near-Miss-System (system of reporting potentially dangerous situations) and more safety-related communication to reduce the number of accidents).

Environmental risks

As of 2019, new limits on formaldehyde emissions into the air will be applicable in the European Union. They ensue from the drying process in the production of wood-based panels. These changes are being introduced as part of the BAT Conclusions under the BREF Document. All EU member states are obliged to implement these guidelines into national law. Solutions - emission limits - may vary by country. In Germany, as of 2019, dryers used in the production of wood-based panels will have to meet the emission limit for formaldehyde i.e. 10 mg / m3 while in Poland it is 15 mg / m³. Germany's current limit is 20 mg / m³ while Poland does not have a limit. Due to these changes, there is a risk that Pfleiderer will be unable to meet this emission limit in Germany **(5)**, either with the filter equipment currently in use or the one currently available on the market. Several European countries plan to reduce emissions to 15 mg / m3. An assessment of this risk is not currently possible. In the worst case, there is a risk of production closure. Pfleiderer is carrying out internal tests to check whether a specific future emission limit is achievable in its attempt to determine what is the lowest value that is technically feasible. In addition, there are ongoing discussions on this subject with the manufacturers of filter equipment.

The BAT Conclusions also call for the introduction of a cap on air emissions for VOC (volatile organic compounds) as of 2019. This limit has been set for indirect and direct particle dryers at 200 mg / m3 **(6)**. Due to the different technologies used, it is impossible to meet this limit using the current indirectly heated particle dryers in the production plants in Gütersloh and Neumarkt. The consequence of the materialisation of this risk may be similar to risk **(5)**, i.e. discontinuation of production. In this area, Pfleiderer is also conducting internal technical tests to determine the lowest achievable levels. The Company is also considering the possibility of submitting a clause excluding indirect particle dryers from the obligation of achieving this limit to the European Commission.

The risks presented above may affect Pfleiderer's effectiveness. Nor can a supply chain impact be entirely ruled out. However, the Company is undertaking a number of measures to mitigate the potential risk incurred by Pfleiderer's business partners.

7.2 ENVIRONMENT

Pfleiderer Group's environmental policy involving long-term sustainable planning and actions. As a leading producer of wood-based panels in Europe, the company exerts a significant environmental impact, which is why it consciously undertakes actions to preserve the environment for future generations. The Company manufactures its products with the highest possible care as part of the ISO 14001 certified environmental management system implemented in all production facilities. Each plant has a separate dedicated environmental programme and specific goals.

Pfleiderer continuously improves production processes in terms of environmental protection and the products offered. It has proven its commitment to sustainable development and long-term environmental protection. The Company is continuously striving to develop its product offer to ensure that production (the technologies and raw materials used) has an ever-smaller adverse environmental impact, and their use is completely safe for health, while maintaining quality and modern design appealing to customers and a variety of applications. New products and production methods undergo environmental impact testing at the design stage. Pfleiderer's goal is to produce lighter wood-based panels, use less and less raw materials and at the same time maintain the quality of its products as stated in their specifications.

Pfleiderer pays particular attention to continuously enhancing energy efficiency and strives to reduce energy consumption in production processes. In addition, the Company carefully selects its suppliers and service providers paying attention to their approach to environmental issues, energy consumption and other resources.

Wood is the main raw material used in the production process, which is why the Company cares about sustainable forest management. That means that Pfleiderer does not order wood from the following sources:

- illegally harvested wood,
- timber from regions where traditional and fundamental civil rights are violated,
- wood from high nature value forests that are threatened by forest management,
- wood from regions in which natural forests are transformed into plantations or used for purposes other than forests,
- wood from forests that contain genetically modified tree species.

Pfleiderer Group regularly monitors important environmental aspects - it determines the relevant KPIs. As part of the Integrated Management System in all plants in Germany and Poland, as well as in its other companies, it regularly plans activities and assesses the degree of implementation of its environmental goals, tasks and programmes, and performs audits involving external entities authorised to perform certification.

7.2.1 DIRECT AND INDIRECT ENVIRONMENTAL IMPACT

Raw materials and materials

The main raw materials used in Pfleiderer Group's production plants are wood, glue and impregnated paper. The wood comes from sawmills or forests and is FSC / PEFC certified. Every year, Pfleiderer processes around five million cubic meters of wood - roughly the equivalent of 800 trucks per working day. In addition, waste wood, if possible, is used for production in line with the European waste hierarchy for the recycling of materials.

Criteria for waste wood suitable for recycling in the wood industry are set out in the German Waste Directive. Pfleiderer Group audits wood waste suppliers to ensure that legal requirements are met. In addition, the recycled wood, and especially the boards produced, are regularly analysed at Arnsberg, our own analysis centre, to ensure they are not contaminated.

In Poland, there are no official regulations regarding the use of recycled wood, but Pfleiderer's plants meet the same criteria as required by German law. In addition, factories in Poland are among the largest in the country to use wood waste recycling in production.

The adhesives used by Pfleiderer are based on formaldehyde. In addition to special products, PMDI (polymethylene polyphenylene isocyanate) is used as a binder in wood-based panels. The adhesives used do not pose a risk to the environment because they are biodegradable. This means there is no adverse impact if they enter the soil or groundwater.

The use of materials by all production plants is determined throughout the Group. The consumption of all raw materials is closely monitored to minimise waste and thus reduce production costs.

In each plant, KPIs have been established to measure the consumption of key materials per product unit and benchmark the performance of the Core East and Core West plants.

Energy

- Pfleiderer Group holds ISO 50001 certification. The Company's goal is to reduce the consumption of fuels and energy in each plant, which is why their consumption is regularly measured. Our commitment to reducing energy consumption in production processes is evidenced by the combined heat and power plants we have in our facilities in Baruth, Gütersloh and Neumarkt. To improve energy efficiency results, targets have been set for each plant, which for the entire Core West are as follows:Reduction in heat consumption: 5%
- Reduction in electric power: 3%

In order to achieve these objectives, funds for necessary investments were defined and secured.

Based on energy data collected since 2011, energy consumption is regularly assessed and analysed at all Group locations. This forms the basis for identifying potential improvements. The efficacy of the measures taken is also verified and compared with the intended outcomes.

In each plant production waste is incinerated in the form of biomass, thereby generating additional energy to be used in the production process. As a result, a small amount of energy comes from fossil fuels (oil, gas). The water content of biomass for combustion is also constantly monitored to optimise energy efficiency.

The effect of biomass combustion is not to use the allocated CO_2 limits and the possibility of selling certificates on the market based on the European emission trading system. It is worth noting that biomass not harmful to the environment: the amount of carbon dioxide emitted to the atmosphere during its combustion is balanced by the amount of CO_2 absorbed by plants that recover biomass in the process of photosynthesis.

In all Core West and Core East plants, KPIs are defined in terms of energy and gas consumption in the board production process (MWh / m³), which enables benchmarking the plants.

Water

The water needed for production in most plants comes from the municipal water supply system. The plants in Neumarkt and in Gütersloh also have their own wells for collecting water used in the production process. Water consumption from the well is regulated and limited. In addition, wastewater treatment and recycling systems have been installed to reduce water consumption in the Core East facilities.

In all plants, the consumption of water and the amount of sewage are measured.

Emissions into the atmosphere

Formaldehyde and other volatile organic compounds (VOCs) evaporate in the drying process, but they do not pose a risk to people or the environment, as these emissions do not persist in the air. Nevertheless, the factories are obliged to meet the limits required by law. All Pfleiderer plants have filters installed to meet these requirements (BAT) and reduce emissions of compounds into the atmosphere as much as possible. It is worth noting that tests are in progress to reduce formaldehyde emissions. To this end, various filters, wood species and drying temperatures are being tested in plants.

All production plants are constantly monitored under the emission trading system. External certificates are renewed annually according to European standards. In 2017, the volume of CO2 emission allowances was as follows::

Core West:

- Leutkirch: 7,565 t CO_2 + 15,336 t CO_2
- Neumarkt: 20,787 t CO_2
- Gütersloh: 9,272 t CO_2
- Baruth: 26,518 t CO_2

Core East:

8 Wieruszów: 31,017 t CO_2
9 Grajewo: 3,986 t CO_2
10 Grajewo MDF: 9,238 t CO_2
11 Silekol: 18,686 t CO_2

There are no other chemicals used in Pfleiderer manufacturing facilities that cause hazards.

In addition, three power plants in Germany, which operate in accordance with the provisions of the European Directive on the combustion of waste, meet the emission limits for heavy metals, dioxins, HCl, HF and SOX. Pfleiderer Group takes measures to minimise emissions to drop up to 80% below the limits set for heavy metals and dioxins in the German locations of Gütersloh and Neumarkt. Emissions in power plants are measured continuously, and emissions are published every day on Pfleiderer’s website. .

Waste and sewage

Most of the waste generated in plants is recycled or burned in our own power stations or incineration plants. A significant part of this waste is ash arising from the combustion process (about 60,000 tonnes in Core West and 25,000 tonnes in Core East). Other waste is disposed of in accordance with applicable legal requirements.

In most cases, wastewater generated in plants goes to the municipal treatment system. In Polish plants where no municipal treatment system is available, Pfleiderer has built its own system to meet the required limits for sewage discharged into the river. In order to minimise the amount of water that is disposed outside, sewage is used in the recycling process. In essence, the fact waste evaporate and vapours are condensed and reused in the production process or move in a closed circuit, while solid waste is separated. In addition, some wastewater from the production process is used elsewhere, for example as water for mixing glue.

Wastewater disposal is monitored in all Group plants.

The Group’s plants have reports on the quality and quantity of waste that is transferred on an ongoing basis to external companies dealing with waste recovery and disposal.

Other

In the reporting period, as well as in earlier periods, Pfleiderer's facilities did not observe any leaks that could affect human health, soil, vegetation, water or groundwater.

During the reporting period, Pfleiderer Group was not charged with any fines for failing to comply with environmental protection standards and no litigation is pending against the Company. In addition, there were no non-financial sanctions for non-compliance with environmental laws and regulations.

7.2.2 EXTENDED ENVIRONMENTAL RESPONSIBILITY: PRODUCTS AND SERVICES

Wood-based panel is an environmentally friendly product. It is a neutral material in terms of CO_2 emissions, a kind of carbon sink. An EPD (Environmental Product Declaration) is available for wood-based panels that show the green characteristics of wood-based boards compared to other products.

Pfleiderer Group monitors the legally required limits for formaldehyde emission, heavy metal content and other possible contaminants from the use of wood waste in production at its analytical centre in Arnsberg. Wood waste is used in plants producing chipboard, i.e. Neumarkt, Leutkirch, Gütersloh, Wieruszów and Grajewo.

7.3 LABOUR AND SOCIAL ASPECTS

Pfleiderer appreciates its responsibility to the state, society and the environment. It demonstrates this responsibility first of all to its employees - human capital is the most valuable resource Pfleiderer has. The Company is also aware of the possible impact on the supply chain, which is why it strives to cooperate with socially responsible partners. Pfleiderer is aware of its responsibility to its stakeholders, evidenced by the declarations and objectives detailed in the "Social Card" document. Another manifestation of responsibility to society is, among others, responsible marketing communication, consumer safety for those who use the Company's products whose labels are truthful and comply with the law.

7.3.1 HUMAN RESOURCES MANAGEMENT

Pfleiderer’s goal is to ensure safe and decent working conditions for its employees. Supporting human dignity and respect for internationally recognised human rights based on the basic labour standards of the International Labour Organization (ILO) are the main principles of the Group's corporate policy.

Respect and employee relations based on trust and esteem are vital elements of Pfleiderer’s corporate culture. This culture is also characterised by recognising the dignity of all people and a sense of partnership in the workplace, which is the basis for cultivating a positive working atmosphere in the Company. All employees have equal opportunities and are treated equally regardless of race, ethnic or social origin, religion or belief, political beliefs, nationality, gender, physical disability, age or sexual identity. The Company attaches great importance to employee recruitment. It is important that, in addition to the necessary competences, their values and attitudes are consistent with those of the Company, as they constitute an important condition for market success and development of all companies belonging to Pfleiderer Group.

Pfleiderer is fully aware of its responsibility to its employees and employment conditions in the supply chain, as documented by the signing of the International Framework Agreement on Social Standards. The signatories of the contract are IG Metall Deutschland, the International Organization of Construction Workers and Wood Industry (BWI) and the European Works Council of Pfleiderer AG. The contract has been in force since 2010.

Employment rate and pay level

Employment in the Group as at 31 December 2017

3 521 Annual employment in **Pfleiderer Group** in 2017

1 357 Annual employment in **Business Centre East** in 2017

2 164 Annual employment in **Business Centre West** in 2017

TABLE 52: WORKFORCE IN THE PFLEIDERER GROUP (AVERAGE HEADCOUNT)

	2017	2016
Management	10	7
Direct production employees	1 699	1 502
Indirect production employees	749	779
Administration, office and other employees	1 063	977
Total	3 521	3 265

FIGURE 27: THE GENDER STRUCTURE

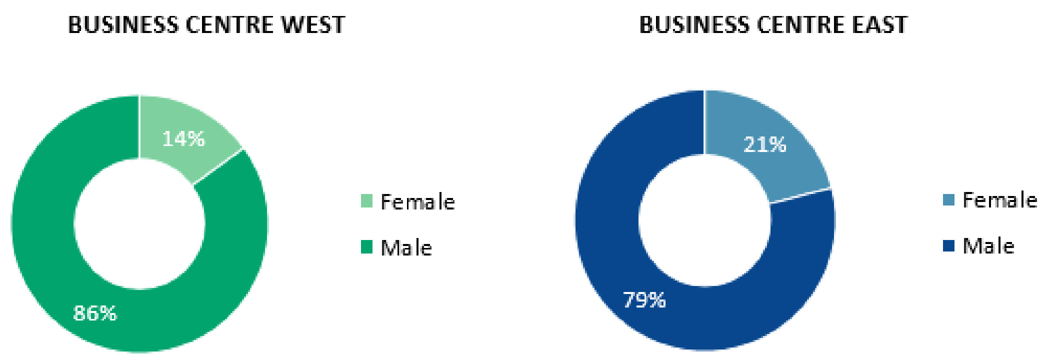


TABLE 53: GENDER/AGE STRUCTURE OF THE WORKFORCE IN PFLEIDERER GROUP

The total number of employees by age group and diversity		Under 30 years		30-50 years old		Over 50 years old		Total %	
		Core East	Core West	Core East	Core West	Core East	Core West	Core East	Core West
The percentage of employees in each group	Female	3.3%	5.4%	13.1%	6.2%	4.9%	2.7%	21.3%	14.3%
	Male	8.8%	17.1%	40.4%	35.2%	29.5%	33.4%	78.7%	85.7%
The percentage of employees in each age group:		12.1%	22.5%	53.5%	41.4%	34.4%	36.1%	100.0%	100.0%
		18.5%		46.1%		35.4%		100.0%	

In Pfleiderer Group, great attention is paid to properly defining pay, appropriate to the type, nature and specific aspects of the work performed.

Bearing in mind the principle of equal treatment of all employees in Pfleiderer, the principle of equal pay for men and women for work of equal value regardless of the type of contract concluded (e.g. fixed-term contract) applies to all Group Companies. Pfleiderer always tries to eliminate any unfair differences in this area. Employees receive pay and additional benefits no lower than the statutory minimum or specified in the contract (but no lower than the statutory minimum). The remuneration principles are based on payroll reports and the methodology of a specialist consulting company, which, based on the job descriptions, develops their valuation. The bonus system is governed by the relevant regulations: for administrative employees, production employees and sales representatives. Individual bonus rules for top-level managers are individually regulated in the form of annexes to employment contracts.

Throughout the Group, there are no differences between the benefits provided to full-time employees, including those employed temporarily or part-time. The pay for working in the normal working time for a given place of employment provides employees with at least a minimum standard of living. All employees receive clearly formulated oral and written information, in the appropriate language of the given country, on the conditions and time frame for their pay.

Employees posted by the employer receive at least the same working and pay conditions as those applicable to employees in the place of posting.. Employees are also entitled to pay for any additional expenses caused by the transfer.

Relations with employees and freedom of association

Pfleiderer Group fully recognises the right of all employees to form or affiliate in a trade union of their choice and perform the resulting functions (e.g. the right to collective bargaining of pay conditions). Pfleiderer takes a neutral position on efforts to create a trade union organisation.

All Companies, espouse the principle that the best way to secure the future of Pfleiderer and jobs is open, joint and constructive cooperation between the Company and employee representatives. Pfleiderer applies these principles to collective bargaining, taking into account the situation as regards competitiveness. Pfleiderer sees employee rights to participate and co-decide, in particular at the operational level, as an important competitive advantage for the entire Group and as a key factor for the sustainability of operations.

Employee representatives are not discriminated in any way on account of their status or activities related to their representative function in trade unions. They gain access to the plant premises and access to work stations to the extent required by their functions. Trade unions are entitled to use the media available in the workplace (e.g. bulletin board, available Intranet, etc.) as a platform for communicating with employees.

There are 2 trade unions in the Core West area: IG Metall / Verdi. The companies are parties to collective labour agreements concluded with the majority of employees in German production plants. German law restricts the rights of employers to ask about employee membership in trade unions, so for Core West the degree of unionisation is not known. The employees of Core West in Germany are covered by the German Law on Redundancy, which limits the possibility of unilaterally terminating individual employment relationships. Core West is also subject to the German anti-discrimination law.

In turn, on 29 September 2004 in Grajewo a collective agreement with representatives of the following unions was concluded:

- KM NSZZ "Solidarność"
- MZZ "Budowlani"
- KM NSZZ "Solidarność 80"
- ZZIT MOZ
- OM ZZ "Budowlani"

The agreement is binding on all employees of the Grajewo plant (excluding the Management Board and some members of the management team). The collective agreement sets out certain provisions, including in particular pay and working time. The Core East companies enter into contracts of indefinite duration and fixed-term employment contracts (usually with external temporary employees). Core East has a uniform pay policy and uses a job validation system.

TABLE 54: CORE EAST TRADE UNION MEMBERSHIP RATE

	Pfleiderer Grajewo	Pfleiderer MDF Grajewo	Pfleiderer Wieruszów	Pfleiderer Silekol	Pfleiderer Polska	Jura Polska	Pfleiderer Group
Number of employees	393	171	401	99	250	26	17
ZZ Budowlani	75	20	78	12	23	14	0
ZZ Inżynierów i Techników	0	0	26	5	11	0	0
ZZ Solidarność'80	0	0	97	0	7	1	0
ZZ Solidarność	216	89	0	1	7	3	0
ZZ Branżowe	0	0	0	17	0	0	0
Unionisation %	**74.05%**	**63.74%**	**50.12%**	**35.35%**	**19.20%**	**69.23%**	**0.00%**

In 2017 there were no major stoppages or strikes in Pfleiderer Group. The Company believes that relations with its employees and trade unions are satisfactory.

Occupational safety and health (OSH)

Concern for safety is one of Pfleiderer Group's priorities and is included in the Business Conduct Guidelines. In accordance with policy, the Companies adhere to the principle that the best possible protection against accidents in the workplace is a sense of responsibility for colleagues and co-workers. This applies to all aspects ranging from technical planning of individual workstations, devices and processes, to managing work safety and individual behaviour at work. Each employee is obliged to pay constant attention to compliance with safety rules and hygiene in the workplace. Pfleiderer Group is unwaveringly building a culture of safety. It undertakes systematic actions to improve occupational health and safety. The Company espouses an ethical approach to the protection of health and human life, recognizes the need to do everything possible in the given conditions to prevent work accidents, breakdowns or disasters. The safety management system involves the participation of Group employees and from third party companies. Occupational safety and cargo / transport safety inspections are carried out regularly. All contractors working on Pfleiderer sites undergo safety training before starting work. In addition, all contractor accidents are monitored at Pfleiderer sites. In its companies located in Poland, the OHSAS 18001 Occupational Safety and Health Management System was implemented. The Certification of companies in Germany is planned in 2018.

The safety management system in Pfleiderer Group is based on two pillars. The first is to ensure the highest standards of work safety, such as the implementation of best practices and the latest knowledge and techniques in operational areas. The second pillar is to raise employee safety awareness and attitudes to prevent work accidents.

As part of the uniform occupational health and safety management system implemented across the group in 2017, the ONE HEALTH&SAFETY programme, which is based on five areas was introduced:

- Leadership
- Communication
- Qualifications
- Organisation
- Standards

The main actions taken to support cultural change in safety were:

- leadership workshops (group-wide, site and shift level),
- introduction of a "Near-miss system" to improve accident prevention (a system documenting potentially dangerous situations, i.e. unplanned events that did not cause any injury, disease or damage, but had the potential to do so),
- introduction of the "Pfleiderer near-miss" application (a web app) facilitating the process of reporting potentially dangerous situations,
- introduction of a "5 minutes for safety" programme to improve safety communication at the management and supervisory level,
- introduction of a "Hazard-Alert" system providing quick and general information on accidents and critical reports on potentially dangerous situations.

In terms of safety, indicators (KPI) based on the "pyramid of injuries" were adopted for the purpose of assessing effectiveness:

- number of accidents
- number of instances of providing first aid
- number of potentially dangerous situations reported

Data is generated at the Group and individual company level.

In the process of implementing changes, incentive mechanisms are used. For instance, among managers and in production, a bonus system is employed to take into account occupational safety aspects. Additionally, a monthly safety lottery is executed at the site level to promote the ZERO ACCIDENT policy.

As a result of actions undertaken and ongoing cultural change in safety, the number of accidents and hours of absence decreased in 2017:

- reduction of accidents at the Group level in relation to the number from 2016 by 42%
- reduced number of absence hours at the Group level compared to 2016 by 32%
- Group 1000-men-quote: 11

TABLE 55: ACCIDENT-RELATED DATA

Name	Description	2017
Fatal accident	Fatal accident relates also to APT employees	0
Level 1 accident	Accident with absence of over 3 days (date of accident not included. Saturdays, Sundays, holidays included) relates also to APT employees	46
Level 2 accident	Accident with absence of 1,2, 3 days (date of accident not included. Saturdays, Sundays, holidays included) relates also to APT employees	16
Level 3 accident	Accident with < 1 day of absence (when the employee must leave the workplace but comes back the next day to work. Relates also to APT employees	4
Level W accident	Accident directly on way to work / home. relates also to APT employees	17
Level C accident	An accident of an employee of a foreign company working on the premises based on our order	14
First-Aid Cases	External and internal help provided as part of first aid (with entries in first aid books)	637
Near-Misses	Dangerous conditions, dangerous behavior and "real" potentially accidental situations without injuries	23 511
Absence Hours L1-L3	Absence caused by Level 1 + 2 accidents calculated in hours (1 day of absence = 8 hours). The following are not included: accident day, days / shifts off work, holidays. The maximum number of hours of absence is 182 days or 1456 hours	12 190
Absence Hours LW	Absence caused by accidents to/from work calculated in hours (1 day of absence = 8 hours). The following are not included: accident day, days / shifts off work, holidays. The maximum number of hours of absence - see definition " Absence Hours L1-L3"	1 550
1000-Men-Quote	1,000 Men-Quote = (1,000 x number of level1 accidents) / (actual working hours of all employees / 1,580)	11

Training and education

Pfleiderer gives employees the opportunity to participate in a number of development programmes and further vocational training, which all employees can use in line with their internal career paths and individual skills. Pfleiderer improves the qualifications and competences of managers and other employees, supports their development in the Company while treating everyone on an individual basis. Employees are informed about available, tailor-made trainings, including those using new technologies and modern equipment. Pfleiderer Group focuses on employee development from the first day of their work. All new employees in the Company pursue an implementation plan adapted to their role and individual needs. An important element of the Company induction is product training. Training planning takes place on an annual basis in accordance with the planning and implementation of training. Apart from obligatory training, specialist, interpersonal and language training have an important role to play.

Bearing in mind the new challenges related to business strategy implementation and evolving market conditions (business environment), the Group has started an educational project related to individual development plans. The programme is addressed to executives and experts in sales and marketing as well as operational departments. 30 employees are participating in the project. In 2017, a Development Centre project was launched as the base for development activities in 2018.

For persons debuting in a manager role, the Company is implementing the "FIRST TIME MANAGER" training programme, entailing a series of training sessions with a goal to help them become good team leaders. Everyone participated in the Assessment Centre session, the first stage of the programme. Participants work on their development, focusing, among others, on situational management or motivational styles. Line managers in factories selected internally were invited to participate in the BASIC MANAGEMENT training programme. During the 9-day workshop, the participants focused on gaining knowledge and developing managerial skills through the implementation of specific tasks after the workshops. As part of the training programme, there are also workshops supporting the implementation of the organisation's strategy.

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. Pfleiderer recognises the personal strengths of working in an international and age-diverse environment. The Company taps into and promotes these differences, keeping in mind the free flow of know-how used to strengthen teams, contributing to the strategic goals of the 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 physical or psychological condition, feels comfortable, is respected and appreciated, and whose potential is fully utilised.

The rules accepted and applied by the Company for years have been included in the official document entitled "Diversity policy within the capital group of Pfleiderer Group S.A." which was approved by the Company’s Management Board.

The Company also applies an extensive diversity policy, to members of management bodies and key managers. It relates in particular to the profile of education, age and professional experience profiles. Key management positions within the Group are taken by 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.

7.3.2 HUMAN RIGHTS

Respect for human dignity and respect for internationally recognised human rights based on ILO core labour standards has been and will remain part of Pfleiderer's corporate policy. The Company is committed to the goal of providing decent and prospective jobs. The Company endeavours to eliminate discrimination. All kinds of harassment (e.g. physical violence, threats of physical abuse, unusual disciplinary measures, sexual harassment and others), manifestations of hostility and humiliation, intimidation and insults, regardless of whether they are utilised by management, employees, trainees or temporary employees, are not tolerated. The Company allows for the possibility of using sanctions under labour law in the event of a violation of the ban against discrimination. Pfleiderer has established an Ethnic Equality Complaints Board. In 2017, training was provided on the relevant legal provisions and internal rules on equal treatment for the works council and the human resources department. Compliance with human rights is part of the contractual provisions with all business partners.

7.3.3 CHILD LABOUR AND FORCED LABOUR

In Pfleiderer Group, in accordance with the provisions of the "Social Charter", all forms of forced or slave labour are strictly prohibited. Pfleiderer does not tolerate child labour. Children under 15 years of age or children who are subject to compulsory full-time education, if the second age is higher, are not employed. Children and youth under the age of 18 are not assigned tasks that, due to their nature or the particular circumstances in which they must be performed, may endanger the health, safety or morals of young people. Relevant local rules are also taken into account. Pfleiderer strives to cooperate only with contractors, subcontractors and suppliers who recognise and apply these principles.

7.3.4 SOCIAL COMMITMENT

As part of its social commitment to the local community living in the vicinity of production plants, Pfleiderer engages in social dialogue by organising public consultations on investment planning. In 2017, such a process was carried out in connection with a large planned investment in one of its plants in Germany - citizens were informed about the Company's plans, and also comprehensive answers were given to questions.

Pfleiderer as a responsible employer interested in employment continuity and diversity in employee competences aligned to its needs, while also taking into account the future of young people who will soon enter the labour market, cooperates with technical universities in Germany and Poland. Students of universities such as Duale Hochschule Baden-Württemberg Mosbach, Hochschule für angewandtes Management Erding Campus Neumarkt, Hochschule Rosenheim in Germany and in Poland: University of Applied Sciences, Warsaw University of Life Sciences in Warsaw, University of Life Sciences in Poznań, organises internships in its companies. As a result, young people have the opportunity to gain experience, and Pfleiderer gains future employees.

In five plants in Germany, the Company offers apprenticeships in 17 different professions ranging from electronic technicians to industrial clerks. During apprenticeships people acquire reliable specialist and practical knowledge and have an opportunity to develop their own skills through analysis of processes and participation in projects. We pay special emphasis to the personal development of our junior staff members. Through multifaceted work and project management, young people increasingly learn to look at processes in context and design projects - skills that sustainably promote motivation and qualifications. In two plants in Poland, six-month internships are offered. In many cases, after the internship, interns receive offers of employment in the Company.

Since 2006, Pfleiderer has been running an educational programme entitled "Use your tongue" in Grajewo and Wieruszów, for whose execution it established the "Use your tongue" Foundation. Its task is to coordinate the project and to collect resources to finance activities. "Use your tongue" is an educational programme addressed to young people aged 16-18 involving teachers to motivate them to learn foreign languages and augment their chances in life. The programme calls for jointly defining teaching standards in the region and project integration with the participation of teachers, school heads, representatives of local government and journalists. As part of the programme, a competition is organised, interesting meetings with special guests take place. The most involved students receive scholarships. In turn, teachers who contribute to their success through their teaching efforts receive prizes. The competition is an important local event that has produced the following effects:

- cooperation with 8 schools (5 in Grajewo and 3 in Wieruszów),
- participation of almost 900 students per year,
- 71 scholarships granted in 2017.

The Foundation is a public benefit organisation.

7.3.5 COUNTERACTING CORRUPTION AND BRIBERY

In 2017, there were no cases of corruption.

Pfleiderer Group has implemented guidelines to prevent corruption and bribery. The relevant rules are set out in the applicable "BCG" document, which all employees are obliged to read, and managers are required to obtain confirmation that their employees have read it. The guidelines contain a brief introduction to corruption in business relations and contacts with officials. In addition, they draw a distinction between accepting or giving undue advantage and accepting a bribe and the consequences of breaking rules as an individual or entity and the code of conduct to avoid violations.

Pfleiderer has also implemented guidelines under the British Corruption Act, as follows: introduction to the British Bribery Act, possible offences, consequences of breaches and examples. Issues of corruption and bribery are subject to verification as part of compliance policy. All applicable rules in this area are transmitted to all employees by email and are available on Pfleiderer intranet (main page of the GRC department).

Potential areas at risk of corruption or bribery were analysed in all Group companies. The following risks have been identified::

1. Granting an official undue advantage
2. Bribery of an official
3. Actively engaging in corruption (giving a bribe):
    - conclusion of a contract or fictitious invoice
    - inappropriate sponsorship of events
4. Tolerating corruption (accepting a bribe):
    - acceptance of benefits contrary to the rules / guidelines

- susceptibility to bribes in operations, especially in procurement

Pfleiderer applies the following measures to prevent the occurrence of adverse events in respect to corruption and bribery:

- A firm position in upper management - zero tolerance for corruption.
- Regular anti-corruption training in which all directors and employees of the purchasing and sales department participate (training at least every two years). In addition, the target group is required to participate in annual SAM (e-learning) training on counteracting corruption.
- Commitment of all managers to comply with the Business Conduct Guidelines (BCG).
- Coherent division of duties procurement and sales. Following the four eyes principle in procurement and sales.
- Acceptance of potential suppliers after prior examination. For orders (indirect payment) exceeding EUR 25,000, at least three offers are obtained.
- Registering invoices in the ERP system only after the previous release (manually or through the system of filing requests) in accordance with the release matrix.
- Avoiding cash payments in excess of significant amounts. Cash payments should be avoided in accordance with the accepted guidelines.
- (Manual) financial transfers carried out by direct debit signed by at least two authorised persons.

Prevention among agents and sales representatives, entails the following:

- compliance with the Instructions: "Conclusion and monitoring of contracts with external sales agents / sales representatives",
- checklist for monitoring external sales agents / sales representatives.

7.3.6 PRODUCT AND CONSUMER SAFETY

Pfleiderer demonstrates how much it cares about the quality of its products by confirming their properties (technical data) and that they do no harm by having accredited laboratories conduct tests. It performs, for example, hygienic approvals confirming the ability to use products in rooms in which food is stored, processed or consumed, for the production of furniture and interior design, for use in the construction sector in closed rooms. Other tests performed include abrasion tests. All approvals and certificates obtained (declarations of conformity, REACH declarations, declarations of performance, IWAY declarations, health certificates and others) are available on the Pfleiderer website (www.pfleiderer.com/row/Service/Downloadcenter).

The organisation did not find any instances of non-compliance with the regulations and voluntary codes regarding the environment, health and consumer safety.

The Company has not received any significant penalties for non-compliance with environmental laws and regulations.

7.3.7 MARKETING COMMUNICATION

Clear brand positioning is the basis for all marketing activities. Pfleiderer is a leading European supplier of high quality wood-based boards with customer-oriented services. The Company does not sell prohibited or controversial products. The core values of Pfleiderer brand are as follows:

- Offering a wide range of decorative surfaces,
- Demonstrating operational excellence and sales and marketing services in the supply chain,
- Espousing environmental and social sustainability.

FIGURE 28: MARKETING COMMUNICATION TOOLS

One of the main tools Pfleiderer uses to communicate with the market involves fairs and exhibitions as well as presentations of trends and new products during special client events, such as the "Inspiration Days" organised in 2017. By participating and organising such events the Company has an opportunity to cultivate direct contact with clients whereby its representatives can establish a dialogue - get to know customer expectations or product assessments. This enables the Company to respond to market demand by improving and marketing new products.

The Company contacts its clients by publishing a Company magazine four times a year. In addition, the Company provides its partners with a wide range of samples and other advertising materials to be used in marketing activities. At the client's request, materials are provided with its logo.

The website is the basis for all activities in online communication. The Company is also active on social networks: Facebook, LinkedIn, Instagram, Pinterest, YouTube and on its own design blog "Designer". Pfleiderer Group has published the rules of using social media in communication. They apply to employees in the case of business and private activities. In addition to online activities, Pfleiderer conducts activities using traditional PR and marketing tools:

- it publishes advertisements and sponsors articles in selected industry magazines,

- it organises conferences and press meetings,
- it gives interviews and answers journalists' questions.

The Group has defined its sponsoring / donation rules in the BCG document. Consent to transfer funds is given by the Management Board. As a rule, requests made by natural persons and profit-oriented organisations are rejected. In no case does the Company transfer funds to organisations that may damage the company's reputation. The donation's expediency and its intended use must be legal and properly documented.

In all its marketing activities and market communication, Pfleiderer adheres to the law and the highest ethical standards at the strategic and operational level.

In managing all the issues related to positioning the Pfleiderer brand image in marketing, advertising, promotional and sponsorship activities the company applies the following rules:

- comply with applicable laws,
- not to cause damage in a deliberate manner,
- take accountability for the consequences,
- properly use education, vocational training and employee experience.

All activities are carried out without using discriminatory or controversial content that may offend various social groups, abuse consumer confidence or arouse negative emotions.

The Company did not report any incidents of non-compliance with legal regulations or voluntarily applied regulations regarding marketing communications, including advertising, promotions and sponsorship.

7.3.8 PROTECTION OF PRIVACY

The general principles regarding the protection of privacy and the leakage of sensitive data are included in the BCG document and apply to every employee. IT is responsible for securing information technology, which in this era of new media, technological development and globalisation is the main source of the outflow of sensitive data. Each employee, however, is responsible for complying with the information security rules in force at Pfleiderer Group.

From 25 May 2018, the EU General Regulation on Personal Data Protection will apply (known as RODO in Poland and as the DSGVO Regulation in Germany). It will replace national laws on personal data protection. Since 2017 intensive work has been under way in Pfleiderer Group to meet the pertinent requirements. In personal data protection Core West uses a specially prepared portal called "Privacysoft" to cover various data protection management areas and help meet DSGVO requirements. It will be used as the main tool for employee DSGVO on-line training and will provide knowledge about training statistics. So far, data protection training sessions in HR have been held, and they will be permanently available on the portal.

Pfleiderer in Germany involves an external entity as a Data Protection Representative which is responsible for all control duties and documentation and specifies in detail where organisational changes should be made or where to develop or adapt technical procedures or workflows.

7.3.9 PRODUCT LABELLING

Pfleiderer has procedures and defined product labelling principles that are part of an integrated management system. It meets the legal requirements for labelling products for wood-based panels, when materials contain formaldehyde, in particular amino plastic resins (class E1) were used in the production process. Compliance with E1 is a mandatory legal requirement to sell Pfleiderer products. The Company, is subject to additional voluntary monitoring by independent institutes as it wants to obtain guarantees of having fulfilled the requirements.

Selected products have a CE Certificate. This means that product sales can take place in all EU Member States in the framework of the single European market. In addition, customers and end-users can check product performance based on the CE mark and the declaration of performance and compare the product with other products with the same specifications.

It is noteworthy that Pfleiderer received, among others, a Nordic Ecolabel license. Boards with the Ecolabel logo have the lowest environmental impact in their category. The requirements are based on a product’s life cycle assessment (production process, use, waste). The standard requires the use of certified raw wood, processed plastics and metals and the use of less harmful substances for health and the environment as well as a high degree of strength and recyclability.

Pfleiderer also holds other product approvals and certificates to give consumers the assurance that its products are made of high quality wood-based materials, environmentally friendly, technically safe and of the highest quality. They are, among others: FSC / PFSC, CARB, TSCA, Blue Angel for LivingBoard products, Nordic Swan certificate for MDF boards for Scandinavia.

The Company procures compliance between its proceedings and the applicable regulations and requirements by submitting its products to regular certification and external audits.

During the reporting period, the Company did not report any cases of failing to comply with labelling requirements.

The legal basis for this statement is the Accounting Act (especially Article 49b and Article 55).

This statement has been prepared based on the guidelines of the Global Reporting Initiative (GRI G4), the Non-Financial Information Standard (SIN) and the Communication of the EU Committees (2017 / C 215/01) “Guidelines on non-financial reporting (methodology for reporting non-financial information)”.

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 19 February 2009 (consolidated text: Journal of Laws of 2014, item 133), 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 2017 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, 10 April 2018**

Tom K. Schäbinger
President of the Management Board

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

Dirk Hardow
Member of the Management Board,
Chief Operating Officer

Ivo Schintz
Member of the Management Board,
Chief Commercial Officer

LIST OF FIGURES

LIST OF TABLES