POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2017
year

(prepared in accordance with Par. 82.1.3 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 consolidated financial statements prepared in accordance with the IFRS

currency: EUR

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	EUR '000 2017	2016
I. Sales revenue	1 006 395	929 588
II. Operating profit/(loss)	46 081	37 383
III. Profit/(loss) before tax	30 366	13 066
IV. Net profit	17 139	14 748
V. Net profit attributable to equity holders of the parent	17 139	14 748
VI. Net cash provided by (used in) operating activities	133 329	122 804
VII. Net cash provided by (used in) investing activities	-66 758	-62 273
VIII. Net cash provided by (used in) financing activities	-80 452	16 464
IX. Total net cash flow	-13 881	76 995
X. Total assets	944 483	944 927
XI. Liabilities	704 581	673 672
XII. Non-current liabilities	465 447	472 203
XIII. Current liabilities	239 134	201 469
XIV. Equity	239 902	271 255
XV. Share capital	6 692	6 692
XVI. Outstanding shares at the end of the reporting period	64 701 007	64 701 007
XVII. Weighted average diluted number of shares	63 991 955	63 918 321
XVIII. Earnings per ordinary share	0,27	0,23
XIX. Diluted earnings per ordinary share	0,27	0,23
XX. Book value per share	3,71	4,19
XXI. Declared or paid dividend per share	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.

CAPITAL GROUP

WROCŁAW, STRZEGOMSKA 42AB

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2017

WITH

AUDITOR'S REPORT

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AUDITOR'S REPORT

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

Auditor's report

We have audited the attached annual consolidated financial statements of the Pfleiderer Group S.A. Capital Group (hereinafter: "Capital Group"), for which Pfleiderer Group S.A. (hereinafter: "Parent Company") is the Parent Company, comprising: a consolidated statement of financial position prepared as at 31 December 2017, consolidated profit and loss and other comprehensive income, consolidated statement of changes in equity, consolidated 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 (hereinafter: "consolidated financial statements").

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

The Management Board of the Parent Company is obliged to prepare the consolidated financial statements 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 Parent Company is also responsible for ensuring internal control necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated 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 consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group 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 consolidated 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 consolidated financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and 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 consolidated 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 consolidated financial statements.

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

The scope of the audit does not include an assurance regarding the future profitability of the audited Capital Group or the effectiveness of the Parent Company's Management Board in managing the Capital Group'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 members of the Capital Group 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, to the entities that belong to the Capital Group.

Choice of audit firm

We were appointed to audit the consolidated financial statements of the Capital Group by resolution no. 8 of Shareholders' Meeting adopted on 21st June 2017. We have been auditing the consolidated financial statements of the Capital Group 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 30 of consolidated financial statements, on 28 December 2017 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. for anti-competitive practice from the beginning of 2008 to 7 September 2011. The Group created provisions in the total amount of PLN 38.682 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 Group's lawyers and Management the current legal status of proceedings, – we have analyzed the Group'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.
Antimonopoly proceedings in Core West	
As described in Note 30 of consolidated financial statements, customers of the Pfleiderer Group have sued the Pfleiderer Group for damages in connection with antitrust violations in Germany. 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 a provision related to antitrust violations of EUR 3.150 thousand including costs related to legal proceedings as well as legal costs and amicable settlements of claims with customers. 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 independent letters to the lawyer firms with whom the Group has cooperated and reviewed the answers, – we have discussed with Group's lawyers and Management the current legal status of proceedings, – we have analyzed the Group's assessment of legal proceedings and the valuation of provisions, – we have discussed the legal proceedings with Deloitte's experts and analyzed the probability of final outcome. 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 consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group 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 applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- 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 Parent Company.

Other matters

The consolidated 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 consolidated 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 of the Capital Group.

It is the responsibility of the Management Board of the Parent Company to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. The Management Board of the Parent Company and members of the Supervisory Board are also obliged to ensure that the report on the activities of the Capital Group meets the requirements of the Accounting Act.

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

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

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Parent 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 Parent 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 consolidated 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 annual consolidated 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 Parent Company 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 of the Capital Group.

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

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PFLEIDERER GROUP

ANNUAL CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

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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: Official Journal from 2014, item 133), the Management Board of Pfleiderer Group S.A. (the Parent) represents that to the best of its knowledge the annual consolidated financial statements for the year ended 31 December 2017 and the comparative information have been prepared in compliance with the applicable accounting policies and give a true and fair view of the Pfleiderer Group S.A. Group's assets and financial results, and that the annual Management Board report on the operations of the Pfleiderer Group S.A. and the Group for the year ended 31 December 2017 gives a fair view of its development, achievements and standing, including a description of the key risks and threats.

The Management Board of Pfleiderer Group S.A. (the Parent) represents that the audit firm which audited the annual consolidated 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 consolidated financial statements, in accordance with the applicable laws and professional standards.

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

Wrocław, 10 April 2018

PFLEIDERER GROUP S.A. GROUP
(all amounts in EUR thousand)

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS '000 EUR	Note	31 Dec. 2017	31 Dec. 2016 (*)
Property, plant and equipment	13	554 279	548 863
Intangible assets	14	82 907	83 091
Goodwill	6	67 541	66 171
Long term investments	26a	511	515
Investment property	15	850	875
Deferred tax assets	16	6 471	5 948
Advances paid on fixed assets		9 877	3 016
Government grants receivables	17	5 275	12 921
Other non current assets		3	2
Non-current assets		**727 714**	**721 402**
Inventories	18	96 301	91 903
Trade and other receivables	19	35 673	32 878
Income tax receivable		244	376
Government grant receivables	17	0	642
Cash and cash equivalents		83 845	97 726
Fair value of hedging instruments	26f	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	20	6 692	6 692
Share premium	20	146 375	146 375
Statutory reserve funds	20	87 281	91 801
Reserves	20	-10 330	-13 937
Retained earnings		9 884	40 324
Total equity attributable to owners of the Company		239 902	271 255
Total equity	20	239 902	271 255

Liabilities			
Loans and borrowings	22	336 155	329 762
Provisions for employee benefits	23	53 389	56 893
Provisions	24	1 453	3 694
Deferred tax liabilities	16	65 625	64 176
Deferred income from government grants	17	8 807	17 439
Other non-current liabilities		18	239
Non-current liabilities		**465 447**	**472 203**
Loans and borrowings	22	2 529	10 898
Income tax payable		15 734	10 559
Trade and other payables	25,26d	182 968	144 111
Employee related payables	23	21 794	22 118
Provisions	24	15 555	12 782
Deferred income from government grant	17	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 reclassifications – for details please see Note 28

The notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

'000 EUR	Note	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Revenue	5	1 006 395	929 588
Cost of sales	10	-775 457	-711 527
Profit on sales		**230 938**	**218 061**
Other operating income	7	16 032	8 905
Distribution expenses	10	-131 787	-111 449
General and administrative expenses	10	-51 969	-49 498
Other operating costs	8	-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	**9**	**-15 715**	**-24 317**
Profit before tax		**30 366**	**13 066**
Income tax expense	12	-13 227	1 682
Net profit for the reporting period		17 139	14 748
OTHER COMPREHENSIVE INCOME			
Actuarial gains and losses net of related tax		2 454	-5 321
Incentive programme		45	0
Exchange differences on translation to presentation currency of the Group		67	-6 081
Items that will not be reclassified subsequently to profit or loss		**2 566**	**-11 402**
Cash flow hedge - effective portion of changes in fair value net to related tax		1 825	-1 195
Cash flow hedge - net change of fair value reclassified to current year profit or loss net of tax		-784	-47
Cash flow hedge - effective portion of changes in fair value of the cash flow hedge for purchase of shares - net of tax		0	-3 387
Cash flow hedge - net change in fair value related to purchase of shares reclassified to goodwill net of tax		0	4 304
Items that are or may be reclassified subsequently to profit or loss		**1 041**	**-325**
OTHER COMPREHENSIVE INCOME		3 607	-11 727
Total comprehensive income for the period		**20 746**	**3 021**

The notes are an integral part of these consolidated financial statements

(all amounts in EUR thousand)

Profit for the period attributable to:			
Shareholders of the Company		17 139	14 748
Profit for the period		17 139	14 748
Total comprehensive income attributable to:			
Shareholders of the Company		20 746	3 021
Total comprehensive income for the period		20 746	3 021
Number of shares at the end of the reporting period (excluding treasury shares)		61 465 957	64 701 007
Average number of shares during the reporting period (excluding treasury shares)	21	63 991 955	63 918 321
Basic earnings per share	21	0.27	0.23
Diluted earnings per share	21	0.27	0.23

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Financial year ended 31 December 2017

'000 EUR	Share capital	Share premium	Reserve for own shares	Statutory reserve funds	Re-valuation reserve	Exchange rate differences	Incentive programme	Actuarial gains and losses	Cash flow hedges	Retained earnings	Total
As at 1 Jan. 2017	6 692	146 375	32 734	59 067	145	-8 054	0	-5 321	-707	40 324	271 255
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	0	0	17 139	**17 139**
Other comprehensive income	0	0	0	0	0	67	45	2 454	1 041	0	**3 607**
Total comprehensive income for the period	0	0	0	0	0	67	45	2 454	1 041	17 139	20 746
Transactions with owners recognised in equity											
Transfer of part of 2016 net profit to reserve for own funds	0	0	31 123	0	0	0	0	0	0	-31 123	**0**
Transfer of part of statutory reserve fund to reserve for own shares	0	0	32 181	-32 181	0	0	0	0	0	0	**0**
Dividend payment	0	0	0	0	0	0	0	0	0	-16 456	**-16 456**
Own shares purchase	0	0	-35 643	0	0	0	0	0	0	0	**-35 643**
Total transactions with owners recognised in equity	**0**	**0**	**27 661**	**-32 181**	**0**	**0**	**0**	**0**	**0**	**-47 579**	**-52 099**
Others	0	0	0	0	0	0	0	0	0	0	**0**
As at 31 Dec. 2017	**6 692**	**146 375**	**60 395**	**26 886**	**145**	**-7 987**	**45**	**-2 867**	**334**	**9 884**	**239 902**

Financial year ended 31 December 2016

'000 EUR	Share capital	Share premium	Un-registered issuance of shares	Reserve for own shares	Statutory reserve funds	Re-valuation reserve	Exchange rate differences	Actuarial gains and losses	Cash flow hedges	Retained earnings	Total
As at 1 Jan 2016	5 573	68 250	75 573	32 734	58 074	145	-1 973	0	-382	41 154	279 148
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	0	0	14 748	**14 748**
Other comprehensive income	0	0	0	0	0	0	-6 081	-5 321	-325	0	**-11 727**
Total comprehensive income for the period	0	0	0	0	0	0	-6 081	-5 321	-325	14 748	3 021
Transactions with owners recognised in equity											
Transfer of part of 2015 net profit to statutory reserve funds	0	0	0	0	993	0	0	0	0	-993	**0**
Share issue	1 119	78 125	-75 573	0	0	0	0	0	0	0	**3 671**
Dividend payment	0	0	0	0	0	0	0	0	0	-14 585	**-14 585**
Transactions with owners recognised in equity	**1 119**	**78 125**	**-75 573**	**0**	**993**	**0**	**0**	**0**	**0**	**-15 578**	**-10 914**
As at 31 Dec. 2016	**6 692**	**146 375**	**0**	**32 734**	**59 067**	**145**	**-8 054**	**-5 321**	**-707**	**40 324**	**271 255**

CONSOLIDATED STATEMENTS OF CASH FLOWS

'000 EUR	Note	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016 (*)
Net profit for the reporting period		**17 139**	**14 748**
Depreciation and amortisation	10	73 872	71 360
Foreign exchange gains	9	-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	12	13 227	-1 682
Amortisation of government grants	17	-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
Shares buyback		-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

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(all amounts in EUR thousand)

1. GENERAL INFORMATION

Pfleiderer Group S.A. (the "Company"; the "Parent") is a company domiciled in Poland, which shares are publicly traded. The Company, until September 30, 2016, acted under the business name of Pfleiderer Grajewo S.A.

The Company was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422.

The Company's registered office is at Strzegomska 42AB Street, Wrocław, Poland. Until 30 September 2016, the Company's registered office was at 1 Wiórowa Street, Grajewo.

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

These consolidated financial statements of the Pfleiderer Group S.A. comprise the financial information of the Company and its subsidiaries (collectively the "Group"). They were authorized for issue by the Company's Management Board on 10 April 2018.

The Pfleiderer Group S.A. Group is primarily involved in manufacturing and veneering of wood and wood-based products and paper finishing, as well as domestic and foreign trade.

2. STRUCTURE OF THE GROUP

The Pfleiderer Group consists of Pfleiderer Group S.A. and its subsidiaries (together "the Group" or "the Pfleiderer Group"). As of 31 December 2017, the Pfleiderer Group S.A. was the parent company with respect to the following subsidiaries:

Eastern Europe		31 Dec. 2017	31 Dec. 2016
Jura Polska Sp. z o.o.	Grajewo	100%	100%
Pfleiderer Grajewo Sp. z o.o.	Grajewo	100%	100%
Pfleiderer MDF Grajewo Sp. z o.o.	Grajewo	100%	100%
Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.)	Wieruszów	100%	100%
Pfleiderer Polska Sp. z o.o.	Wrocław	100%	100%
Pfleiderer Silekol Sp. z o.o.	Kędzierzyn-Koźle	100%	100%
Unifloor Sp. z o.o. (in liquidation)	Wieruszów	100%	100%
Western Europe		**31 Dec. 2017**	**31 Dec. 2016**
PCF GmbH (previously Pfleiderer GmbH)	Neumarkt, Germany	100%	100%
Pfleiderer Austria GmbH	Vienna, Austria	100%	n.a.
Pfleiderer Southeast Europe S.R.L.	Bucharest, Romania	100%	n.a.
Pfleiderer Deutschland GmbH (prev. Pfleiderer Holzwerkstoffe GmbH)	Neumarkt, Germany	100%	100%
Pfleiderer Neumarkt GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Gütersloh GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Leutkirch GmbH	Leutkirch, Germany	100%	100%
Pfleiderer Erwerbergesellschaft mbH	Neumarkt, Germany	100%	100%
Pfleiderer Arnsberg GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Baruth GmbH	Baruth, Germany	100%	100%
Heller Holz GmbH	Neumarkt, Germany	100%	100%
JURA-Spedition GmbH	Neumarkt, Germany	100%	100%
Pfleiderer France S.A.S.	Reims, France	100%	100%

(all amounts in EUR thousand)

Pfleiderer Benelux B.V.	Deventer, Netherlands	100%	100%
Pfleiderer Suisse AG	Rapperswil, Switzerland	100%	100%
Pfleiderer UK Ltd.	Macclesfield, United Kingdom	100%	100%
Pfleiderer Vermögensverwaltung GmbH & Co. KG	Neumarkt, Germany	100%	100%
Pfleiderer Infrastrukturtechnik GmbH & Co. KG (in insolvency)	Neumarkt, Germany	100%	100%
Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH (in insolvency)	Düsseldorf, Germany	100%	100%
Allgäuer Holzindustrie und Imprägnierwerk Aulendorf GmbH (i.L.)	Aulendorf, Germany	100%	100%
Blitz 11-446 GmbH (in liquidation)	Neumarkt, Germany	100%	100%

Changes in the Group's structure in the reporting period

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

In 2017 there were no changes of the group structure except for establishing new selling entities in Austria and Romania.

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS EU"). It was 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.

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 consolidated financial statements. The Group intends to apply them for the periods for which they are required to be applied for the first time.

Standards, amendments to standards and interpretations that have been endorsed by European Union but are not effective for the annual periods beginning as of 1 January 2017:

- IFRS 9 "Financial Instruments" (along with amendments): Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting (effective date: 1 January 2018)
- IFRS 15 "Revenue from Contracts with Customers": The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition. (effective date: 1 January 2018)
- IFRS 16 "Leases": IFRS 16 eliminates the classification of leases as either operating lease or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease. (effective date 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),
- Amendments to IFRS 4 "Insurance contracts": Application of IFRS 9 „Financial instruments" with IFRS 4 „Insurance Constracts" (effective date 1 January 2018 or with the first time adoption of IFRS 9 "Financial instrumetns")
- Amendments to IFRS 15: Explanations to IFRS 15 "Revenue from Contracts with Customers" (effective date 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).

Standards, amendments to standards and interpretations that have not been endorsed by European Union:

- IFRS 14 Regulatory Deferral Accounts: Accounting and disclosure principles for regulatory deferral accounts. (effective date: 1 January 2016)
- IFRS 17 Insurance Contracts (effective for the annual periods beginning 1 January 2021 or later)
- 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 and IAS 28: Deals with the sale or contribution of assets between an investor and its joint venture or associate (effective date: not specified)
- 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)
- Annual Improvements to IFRS - cycle 2014-2016
- 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 date 1 January 2018),
- IFRIC 23: "Uncertainty over Income Tax Treatments" (effective date 1 January 2019)

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

IFRS 9 "Financial instruments"

The Group has performed the initial assessment of the impact of new IFRS 9 Financial Instruments on the Group's consolidated financial statements.

Classification and measurement

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

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 Group has completed the initial assessment of financial assets regarding their classification under the requirements of IFRS 9. In the course of this assessment the Group has implemented changes to the accounting manual, defined the business model and analysed the contractual cash flows. The results of performed assessment are described below.

Trade receivables

The Group, based on factoring agreements, sells part of its receivables which, under the evaluation of assets in terms of classification pursuant to IFRS 9, will be classified to the assets sale model in order to recover contractual cash flows, which results in the measurement of these receivables to fair value. With respect to the balance of receivables in the amount of EUR 4 155 thousand, which as at 31 December 2017 were not yet transferred to factoring, fair value was set as the carrying amount of these receivables due to the short period between the balance sheet date and the receivables sale date.

Remaining trade receivables that were not sold under factoring agreements are classified to the business model which objective is to hold assets in order to collect contractual cash flows. Additionally, the assets passed the SPPI (solely payments of principal and interests) test and therefore will be measured at amortised cost.

In the Group’s opinion, the new standard will not have an impact on the measurement of derivatives or of financial liabilities.

Impairment

IFRS 9 introduces a new approach for the estimation of losses on financial assets measured at amortised cost. This approach will be based on estimating expected losses, unlike in the current model from IAS 39 which is based on the concept of incurred losses. The standard indicates the classification of assets regarding impairments to 3 groups:

1st degree - financial instruments on which there was no significant increase of credit risk since initial recognition – for which 12-month expected credit losses are recognised

2nd degree – financial instruments on which the credit risk increased significantly since the initial recognition but has no objective indicators for events of default – for which lifetime expected credit losses are recognised

3rd degree – financial instruments that have objective indicators for impairment at the end of the reporting period – for which lifetime expected credit losses are recognised

For trade receivables measured at amortised costs the Group will apply the simplified approach and will estimate expected impairment throughout the entire period of life, applying payment provision matrices based on historical data, reflecting the rules of the standard with respect to current and forecasted economic conditions. The impact of new principles concerning the impairment of trade receivables will not be significant.

Hedge accounting

IFRS 9 Introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

As at 31 December 2017 the Group held open forward contracts with a nominal exposure amounting to EUR 17 700 thousand. Pursuant to IFRS 9, on the date that IFRS 9 is implemented, the Group may make a decision, representing an element of the accounting policy, to continue to apply hedge accounting rules pursuant to IAS 39, thereby refraining from the implementation of hedge accounting rules arising from IFRS 9.

However, the Group decided that it will apply the hedge accounting rules set forth in IFRS 9 for hedging relationships which will be established after 1 January 2018.

The total impact on the equity is presented in the table below (all amounts in EUR thousand):

	Accumulated other comprehensive income	Retained earnings	Total equity
Reclassification of items measured at amortised cost or at cost to measured at fair value for:			
Receivables	0	0	0
Adjustment of impairment allowances for assets measured at amortised costs for:			
Receivables	0	0	0
Deferred tax on the above-mentioned adjustments	0	0	0
Total	**0**	**0**	**0**

Measurement to fair value – measurement hierarchy (all amounts in EUR thousand):

	Fair value hierarchy		
	Level 1	Level 2	Total
Receivables	0	4 155	**4 155**
Loans granted (standalone only)	0	25 907	**25 907**
	0	**30 062**	**30 062**

IFRS 16 "Leases"

The Group performed a preliminary analysis of its operating lease contracts and concluded, that in current circumstances (i.e. if the leases is in force as of 31 Dec 2017 would be recognised as liabilities and right of use assets), the Group would recognise additional right of use assets and lease liabilities of approximately EUR 28 million (if the option to recognise assets equal to present value of liabilities would be applied). As a result the Group's profit or loss would be charged with an estimated amount of EUR 8million of depreciation (of the right of use assets) and EUR 1 million of interest cost on lease liabilities. The actual 2017 expenses related to operating lease contracts amounted to EUR 9.8 million. All those assessments might change in line with changes to lease contracts over the period from 31 December 2017 and 1 January 2019 – the effective date of the new standard.

IFRS 15 "Revenue from contracts with customers"

The new standard, which will replace the current standards IAS 11 and 18 applies to all contracts resulting in revenues. A fundamental principle of the new standard is recognising revenues at the amount of the transaction price, at the moment when a given good is delivered or service is rendered to a customer, which is when the customer obtains control over these assets. All goods and services which are sold in bundles and which may be separately identifiable should be recognised separately. Moreover, all discounts and rebates influencing the transaction price should, as a rule, be allocated to individual parts of a bundle. If the amount of revenue is variable, the variable amounts are recognised as revenues if it is highly probable that a reversal in the amount of revenue will not occur as a result of a revaluation.

The Group performed a preliminary analysis of the impact of IFRS 15 on its revenue recognition principles. The purpose of the analysis was to identify the significant contracts that could potentially have elements affecting the timing of revenue recognition or the amount of revenue during the reporting period, particularly with respect to trade bonuses and additional services. Due to the fact that 98.7% of Group's revenues are derived from sale of goods, the Group determined that their performance obligations would be fulfilled upon delivery or other transfer of significant risks of ownership – similar to the currently existing policies. Due to the fact that Group typically is not a party to any multiple delivery arrangements where contracted values would differ from fair values, the selling prices of each product are best estimates of fair values of each element in such transactions. Therefore the impact of IFRS 15 on Group's revenue recognition practices is expected to be minimal.

The Group has reclassified the accrual for sales bonuses for customers from liabilities to trade receivables (for both the reported and comparable period) which complies with the requirements of IFRS 15 (for details please see Note 28).

b) Basis of accounting

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and investment properties, which are measured at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in the Euro (EUR) and all amounts have been rounded to the nearest thousand (EUR'000) unless stated otherwise.

Functional currency of the Company is Polish zloty. Nevertheless approximately two-third of the Group's revenues are generated by the West European segment in Euro and additionally a more than insignificant share of the Polish sales and sourcing is conducted in Euro as well. The Western European segment accounts for more than two-thirds of the Group's assets (such as tangible and intangible assets and inventories) and most of the group's liabilities. In view of the share of the Euro-denominated business and assets as well as liabilities, with effect from 1 January, 2016 the Pfleiderer Group selected the EUR as the presentation currency for its consolidated financial statements.

d) Estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 20 – Derecognition of trade receivables covered by factoring arrangements – based on analysis of risk and benefit transfer, control retention and degree of involvement.

Assumptions and estimation uncertainties

- Notes to the annual consolidated financial statements, Note 4, Section d (v), e (iv) – 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,
- Notes 6, 13 – Goodwill, recoverable amount of non-financial non-current assets – if there is an impairment, the recoverable amount is determined as the higher of fair value less cost to sell or value in use (based on discounted cash flows),
- Note 16, 17 – Corporate income tax and government grants receivables – recognition of deferred tax assets; availability of future taxable profit against which carryforward tax losses can be used; availability of future taxable profit against which government grants receivables can be realized,
- Note 23 – Measurement of liabilities under defined employee benefit plans – employee benefits are evaluated by an actuary. The valuation is based on assumptions regarding interest rates, remuneration increase, inflation rate, and employment turnover,
- Notes 24, 30 – Provisions and contingent liabilities - recognition of provisions and contingent liabilities requires the estimation of the probable outflow of economic benefits and making the best estimate of expenditure required to settle the present obligation at the end of reporting period,
- Note 26 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 26 – financial instruments.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group's accounting policies have been applied consistently in all periods presented in these consolidated financial statements and have been applied consistently by the Group entities.

a) Basis of consolidation

(i) Business combinations

The Group accounts for business combination using the acquisition method when control is transferred to the Group.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

Any gain on a bargain purchase is recognized in profit or loss immediately.

Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlements of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, than it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until to the date control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and the other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investee are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are also subject to elimination in the same way as unrealised gains, unless the transaction provides evidence of an impairment loss of the asset transferred.

b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

(all amounts in EUR thousand)

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the exchange rate at the reporting date.

Non-monetary assets and liabilities presented in foreign currencies valued at historical cost are translated at exchange rates effective as at the transaction 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 recognized in profit/loss of the current period.

(ii) Foreign operations

As at the end of the reporting period, assets and liabilities of foreign operations are translated into the functional currency at the exchange rate at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates as at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income accumulated in reserve. At the time of disposal of a foreign operation any accumulated currency-translation differences are transferred to profit or loss as part of the gain or loss on disposal.

(iii) Net investments in foreign operations

Foreign currency differences relating to monetary items receivable from a foreign operation, whose settlement is neither planned nor probable in the foreseeable future, are considered to form part of net investments in foreign operations and are recognised in other comprehensive income and presented in the translation reserve.

(iv) Exchange differences on translation to presentation currency of the Group

Exchange differences relating to translation of financial statements from function currency to presentation currency are recognised in other comprehensive income. The method of translation to a presentation currency is consistent with the translation of a foreign operation for consolidation purposes. Exchange differences arising from translation from fuctional to presentation currency are not transferred to profit or loss.

Exchange rates used to translate items of the statement of financial position:

	31 Dec. 2017	31 Dec. 2016
PLN	4.1770	4.4103
USD	1.1993	1.0541
GBP	0.8872	0.8562
RUB	69.3920	64.3000
CHF	1.1702	1.0739
RON	4.6585	4.5390

Exchange rates used to translate items of the statement of profit and loss and other comprehensive income:

	31 Dec. 2017	31 Dec. 2016
PLN	4.2565	4.3631
USD	1.1292	1.1066
GBP	0.8761	0.8189
RUB	65.8784	74.2308
CHF	1.1115	1.0900
RON	4.5691	4.5315

c) Financial instruments – classification and valuation

(i) Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: 'loans and receivables' and 'available-for-sale financial assets' under IAS 39 and 'amortised cost' and 'fair value through other comprehensive income' FVOCI under IFRS 9 starting from 1 January 2018.

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

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group 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 Group is recognized as a separate asset or liability.

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

Loans and receivables (IAS 39)

Loans and receivables are non-derivative 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 less impairment losses, if any.

The fair value of trade and other receivables and loans for disclosure purposes is estimated as the present value of future cash flows, discounted using the market interest rate as at the date of the statement of financial position.

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

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

Available-for-sale financial assets (IAS 39)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other category of financial assets. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented in the revaluation reserve in equity. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

IFRS 9

Financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

-the entity's business model for managing the financial assets and

-the contractual cash flow characteristics of the financial asset.

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Non-derivative financial liabilities

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

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

The Group's financial liabilities measured at amortised cost comprise borrowings and other 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 as at the reporting date.

(ii) Derivative financial instruments

The Group 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 Group 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 Group 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 hedge and the hedged risk, as well as the methods that a Group will use to evaluate the effectiveness of the hedging instrument.

The Group 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 is 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, 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 hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which hedged forecast 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 Group ceases to apply hedge accounting. If a forecast transaction is no longer expected, the gains and losses recognised in equity are transferred to the profit or loss of the period.

d) Property, plant and equipment

(i) Owned property, plant and equipment

Items of property, plant and equipment are recognised 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 tangible asset under construction comprises all expenses incurred by a Group to construct, install, adapt or improve such assets, including non-deductible VAT or excise tax, until the day on which the asset was available for use in a manner intended by the management. The production cost also comprises 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 an obligation exists. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment or a tangible asset under construction.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

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

(ii) Reclassification to investment property

When the Group ceases using a property for own purposes and designates it for investment activity, the property is measured at fair value and reclassified to investment property. Any gain arising on this remeasurement is recognised in profit or loss, to the extent that it reverses a previous loss on impairment loss on the specific property with any remaining gain recognised in other comprehensive income in the revaluation reserve. Any loss is recognised in profit or loss.

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

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group 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 Group 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 Group's incremental borrowing rate.

Lease agreements under which the Group (as a lessee) assumes substantially all of the risks and rewards 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. 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 rewards resulting from the ownership of the leased asset are classified as operating leases. Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(iv) Subsequent expenditure

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

(v) Depreciation

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

The estimated useful lives of property, plant and equipment adopted by the Group for current and comparative periods are as follows:

Buildings	14 - 40 years
Plant and equipment	1.5 - 33 years
Vehicles	2 - 21 years
Other tangible assets	3 - 23 years

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

e) Intangible assets

(i) Goodwill

Any business combination other than combination of companies under common control is accounted for applying the acquisition method.

Goodwill is recognised on the date of obtaining control as:

- the fair value of consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is presented at cost of purchase net of accumulated impairment losses.

(ii) Other intangible assets

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

Intangible assets for which, on acquisition, the Group is not capable of determining their useful lives are classified as having indefinite useful lives and thus are not amortised. The Group performes an annual assessment of the remaining useful lives of such assets and if those become finite – amortisation commences over the remaining useful lives. Intangible assets with indefinite useful lives are tested for impairment on an annual basis regardless of impairment indicators.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation of intangible assets is calculated using the straight-line method over their estimated useful lives, unless their useful economic lives are indefinite and is generally recognised in profit or loss. Goodwill and intangible assets with indefinite useful life are not amortised and are subject to impairment testing at the end of each financial year or more frequently if events or circumstances indicate potential 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 - 7 years
Computer software	2 - 7 years
Customer relationships	8 years
Entitlement to beneficial EEG remuneration	1 - 7 years
Order backlog	1 year

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

f) Investment property

Investment property is held to earn rental income and/or for capital appreciation. Investment property is not held for sale as part of normal operations, nor it is used in the production process, supply of goods and services, or for administrative purposes. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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 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

(i) Non-derivative financial assets

All material financial assets are tested for impairment 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 and reflected in an allowance account.

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.

IAS 39 (till 31 December 2017)

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, 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.

IFRS 9 (from 1 January 2018)

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

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

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

The Company uses a simplified approach for trade receivables, contract assets and lease receivables - lifetime expected credit losses are assessed based on the "aging overdue receivables table"and:

- It is based on the historical experience,
- % rates of allowance is set.

(ii) Non-financial assets

At each reporting date, the Group 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. Goodwill is tested annually for impairment.

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.

An impairment loss is recognised when the carrying amount of an asset or CGU recognised in the statement of financial position is higher than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets which generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

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 presented as equity. Incremental costs directly attributable to the issue of ordinary shares, 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 for the amount expected to be paid if the Group 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 Group is required to withhold and pay contributions for future pension benefits of its employees, under applicable regulations. The defined contribution plan relates to the government program financed with contributions paid by the Group and by an employee to a pension fund. In connection with the above, the Group's liabilities for each period are recognised based on the contributions payable in a given period.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long term employee benefits

In accordance with the remuneration system of the Group, employees of Pfleiderer Group S.A, Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o., Jura Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Polska Sp. z o.o. are entitled to receive retirement benefits (one-off payment upon retirement).

The Group'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.

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.

Changes between the balance of employee benefit obligations as at the beginning and the end of a reporting period, resulting from actuarial gains or losses are recognised in other comprehensive income.

k) Provisions

Provisions are raised when the Group 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 Boards of Group companies.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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 the passage of time is recognised as finance costs.

Carbon dioxide emission rights are not recognized in the statement of financial position when granted nor in the 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.

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

If at the reporting date, the Group does not have sufficient quantities of rights to fully cover the amount of the carbon dioxide emitted in a period, the Group raises a provision to cover the shortfall of rights.

l) Revenue

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

IAS 18 (till 31 December 2017)

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

Revenue is recognised when significant risks and rewards of 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 transfer of risks 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 location. 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.

IFRS 15 (from 1 January 2018)

An entity shall account for a contract with a customer only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

- the entity can identify each party's rights regarding the goods orservices to be transferred;

- the entity can identify the payment terms for the goods or services to be transferred;

- the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession

- the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Revenue from provision of services includes mainly revenue from transportation services, which are recognised when a service is completed (i.e. the items are delivered to the recipient).

(ii) Government grants

Government grants are recognised in the statement of financial position only when there is reasonable assurance that the grant will be received and the Group will comply with any conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognized and are recognised in other operating income. Grants received as compensation for costs of assets are recognised in profit or loss on a systematic basis as other income over the useful economic life of the asset.

In addition to monetary government grants, the Group also recognises government grants in the form of exemption from income tax as government grant receivables and deferred income (government grant) related to a subsidiary's activities in a special economic zone. The government grant is in the form of exemption from income tax until the earlier of two events: use of the investment tax credit (maximum amount calculated on the basis of the regulations applicable to special economic zones) or expiry of the special economic zone. In order to assess the amount of the government grant to be utilised in the following financial years, the Group estimated the total amount of the potential tax payable on the tax-exempt income generated by it from the business conducted in the special economic zone based on the approved budgets for the following financial years. Any changes in the estimated benefit that will be received from the tax expemtion are recognized as an adjustment against deferred income and government grant assets. The Group accretes the government grants into other income. For that purpose, the Group compiles a list of the property, plant and equipment (with the applied depreciation rates) where capital expenditure made on such assets in the particular years is taken into account in calculating the amount of the government grants in the period of conducting operations in the special economic zone. Based on the above data, the Group estimates the weighted average depreciation rate for the property, plant and equipment. In the following reporting periods the Group amortises the government grants recognised as deferred income using the weighted average depreciation rate calculated for the property, plant and equipment the acquisition of which served as the basis for establishing the amount of the government grants.

The Group also derecognises the government grant assets (tax receivable by the amount of the government grant utilised in the reporting period), and reports the change in the asset within income tax expense (note 18).

m) Operating lease payments

Payments under operating lease agreements are recognised in profit or loss 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) Net finance income and costs

Finance income includes interest income on funds invested by the Group, dividend income, gains on hedging instruments that are recognised in profit or loss, foreign currency gains (excluding gains from foreign currency differences classified as other operating income arising from trade receivables, trade liabilities, cash and fixed assets purchases and disposals) and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised in profit or loss 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 consideration, losses on hedging instruments that are recognised in profit or loss, foreign currency losses (excluding losses from foreign currency differences classified to other operating income), 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 using the effective interest rate method.

Foreign currency gains and losses are presented on a net basis as either finance income or finance costs or in other income if relate to operating foreign exchange differences.

o) Income tax

Income tax expenses comprise of current tax and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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 consolidated statement of financial position.

Deferred tax assets and liabilities are offset only if certain criteria are met. Deferred tax related to transactions recognised directly in equity is recognized in equity.

Deferred tax asset is not recognised for:

- temporary differences on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of reversal of the temporary differences and it is probable 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, in the amount 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; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and deferred tax liabilities are calculated using tax rates that are expected to be effective at the time of realisation of a 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 reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

p) Earnings/(Loss) per share

The Group presents basic and diluted earnings (loss) per share for ordinary shares. Basic earnings (loss) per share are calculated by dividing the profit (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share are calculated taking into account the profit (loss) attributable to holders of ordinary shares, the average number of ordinary shares, and instruments (if any) with a dilutive effect.

q) Determination and presentation of operating segments

These consolidated financial statements disclose information on segments based on components of the Group which are monitored by the Chief Operating Decision Maker (“CODM”) i.e. the Management Board of the Company.

Operating segments are components of the Group for which discrete financial information is available and whose operating results are reviewed regularly and monitored by the CODM in making decisions about resources to be allocated to the segment.

Segments’ profit or loss comprises net profit generated by each segment, without allocating income tax, as this item is monitored at the Group level and cannot be allocated. Inter-segment sales are carried out on an arm’s length basis.

Segment assets excludes cash, income taxes receivable and deferred tax assets. Segment liabilities exclude income taxes payable and deferred tax liabilities.

Capital expenditure of a segment includes expenditure on purchase of property, plant and equipment and intangible assets other than goodwill.

5 OPERATING SEGMENTS

The Pfleiderer Group presently consists of two former largely independent business segments which are currently subject to an overall integration project. The project is still ongoing and is planned to result in a fully integrated European company. The Group is taking steps towards creating a fully integrated company and is still regionally and legally broadly separated into business segments which however will coalesce more and more into one integrated company in the future.

The Group has determined two operating segments – Western Europe and Eastern Europe. Both are components of the Group that engage in business activities from which they earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker and for which discrete financial information is available.

For the year ended 31 December 2017:

'000 EUR	Western Europe	Eastern Europe	Others / Consolidation	Group
External revenues	**704 745**	**301 650**	**0**	**1 006 395**
Intersegment revenues	**13 397**	**78 592**	**-91 989**	**0**
Profit/loss before income taxes	19 109	10 993	264	30 366
Net financing cost	21 182	-5 099	-368	15 715
Result from operating activities (EBIT)	**40 291**	**5 894**	**-104**	**46 081**
Depreciation and amortisation	54 639	18 767	-103	73 303
Impairment	569	0	0	569
Segment earnings EBITDA	**95 499**	**24 661**	**-207**	**119 953**
Cash and cash equivalents	-49 423	-34 059	-363	-83 845
Current financial liabilities	2 529	0	0	2 529
Non-current financial liabilities	337 224	0	-1 069	336 155
Net debt	**290 330**	**-34 059**	**-1 432**	**254 839**
Receivables before factoring	47 515	48 873	0	96 388
Inventories	58 539	37 913	-151	96 301
Liabilities	-60 977	-51 614	0	-112 591
Net working capital before factoring	**45 077**	**35 172**	**-151**	**80 098**
Segment capital expenditure	**57 354**	**18 989**	**0**	**76 343**
Property, plant and equipment	377 554	176 725	0	554 279
Intangible assets	73 419	9 488	0	82 907
Goodwill	29 808	37 733	0	67 541
Advances paid on fixed assets	8 132	1 745	0	9 877

For the year ended 31 December 2016 (restated):

'000 EUR	Western Europe	Eastern Europe	Others / Consolidation	Group
External revenues	**620 929**	**308 659**	**0**	**929 588**
Intersegment revenues	**7 308**	**30 462**	**-37 770**	**0**
Profit/loss before income taxes	-4 960	18 972	-946	13 066
Net financing cost	19 133	5 184	0	24 317
Result from operating activities (EBIT)	**14 173**	**24 156**	**-946**	**37 383**
Depreciation and amortisation	54 751	16 534	75	71 360
Segment earnings EBITDA	**68 924**	**40 690**	**-871**	**108 743**
Cash and cash equivalents	-83 266	-14 095	-365	-97 726
Current financial liabilities	10 898	0	0	10 898
Non-current financial liabilities	329 762	0	0	329 762
Net debt	**257 394**	**-14 095**	**-365**	**242 934**
Receivables before factoring	43 460	44 153	0	87 613
Inventories	55 864	36 039	0	91 903
Liabilities	-38 676	-40 730	0	-79 406
Net working capital before factoring	**60 648**	**39 462**	**0**	**100 110**
Segment capital expenditure	**24 937**	**28 426**	**-595**	**52 768**

Property, plant and equipment	371 537	177 326	0	548 863
Intangible assets	82 482	609	0	83 091
Goodwill	29 732	36 439	0	66 171
Advances paid on fixed assets	2 843	173	0	3 016

Geographic information

In presenting the following information, revenue has been based on the geographic location of the customer

COUNTRY '000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Germany	423 321	401 728
Poland	241 100	217 093
Great Britain	62 534	52 596
Netherlands	40 539	37 709
France	35 250	33 009
Italy	24 087	22 104
Switzerland	21 637	18 642
Sweden	19 564	17 723
Austria	18 872	16 398
Lithuania	18 410	16 265
Czech Republic	14 045	13 349
Belgium	11 806	10 837
Norway	9 756	11 717
Denmark	8 747	6 572
Slovakia	7 607	6 480
Russia	7 201	6 804
Hungary	4 573	4 341
Romania	4 415	3 681
Latvia	3 659	4 140
Finland	2 766	2 551
Estonia	2 733	2 233
Slovenia	2 665	3 149
Ireland	2 162	1 584
Australia	2 060	2 064
South Africa	1 587	3 053
Croatia	1 442	1 379
Ukraine	1 432	1 697
Spain	1 167	1 257
Japan	1 069	1 069
Bulgaria	998	1 072
Bosnia-Herzegovina	928	823
Belarus	792	811
Portugal	690	567
Moldova	588	464
Azerbaidjan	546	397
U.S.A.	519	586
Others	5 128	3 644
TOTAL	1 006 395	929 588

Products and Services

SALES PRODUCTS '000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 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.

Information about major customers

In 2017 and 2016 no leading customers were identified in the Group, for which turnover would exceed 10% of Group's total revenue.

6 Goodwill

The following table presents Group goodwill after acquisition of Core West operations:

'000 EUR	31 Dec. 2017	31 Dec. 2016
Core West	29 808	29 732
Core East	37 733	36 439
TOTAL	67 541	66 171

Impairment test of cash generating unit containing goodwill

For the purposes of impairment testing goodwill is allocated to groups of CGUs representing operating segments before aggregation. Additionally as a result of past acquisitions certain element of goodwill (EUR 25 881 thousand) are allocated to the group of CGUs Core East.

CGUs in Pfleiderer Group

In 2016 Pfleiderer Group S.A. took over Core West business and initiated legal reorganization and unification of processes and systems in the business. The immediate result was internal reorganization process aimed at the operational and organizational integration of the Eastern Segment (the so-called Core East, "CE") and the Western Segment (the so-called Core West, "CW"). The key processes and the range of products and services have been harmonized.

The above reorganization allows the Pfleiderer Group companies to better use the market opportunities, including through the introduction of innovations and diversification of the product portfolio, optimization of operating costs, integration and optimization of the product offer and elimination of doubled functions.

Beginning of 2017 SAP system was rolled over from Core West to Core East segment, which enabled to implement all unified processes across East business (copied from West business). The Group has one management board, which focuses on geographical management (CE/CW). All administration functions are centralized. Sales are done centrally by 2 distribution entities: Pfleiderer Deutchland GmbH for Core West and Pfleiderer Polska Sp. z o.o. for Core East.
Following the abovementioned systematization and harmonization of business management the Group introduced the new approach for impairment testing in year 2017.
Within the new approach CE and CW segment have both separately:
Revenues:

- Single customer base Central pricing,
- Sales done centrally based,
- Management decision taken based on two geographical segments.

Assets:

- Centrally managed annual general overhauls,
- All key decisions are taken centrally,
- Plant managers supervise plants but key decisions about modernization, closing or opening new plants are taken on a central level.

Within the previous Core East approach each plant was separate CGU, which was primary due to:

- Separated customer base per client
- Sales conducted per each plant
- Pricing per product per plant and client

The Company's Management Board estimated the recoverable amount of goodwill as at the end of 2017.

The Group recognised in 2016 additional goodwill amounting to EUR 41.5 million that was allocated to 2 groups of CGUs, which are Core West (West Europe) (72%) and Core East (East Europe) (28%).

Additionally the goodwill amounting to EUR 25.9 million occurred historically on Prospan acquisition is allocated to Core East.

Recoverable amounts of the segments were determined based on a calculation of their fair values. The calculations were performed based on cash flow projections adopted in the five-year budgets approved by the Management Board. The fair value less costs of disposal was determined using the net present value approach with an assumed level of costs of disposal (1% for West Europe and 2% for East Europe operations).

The values assigned to the key assumptions represent Management'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 was applied to reflect the risks specific to a given cash generating unit. A rate of return on 10-year treasury bonds was assumed as the risk-free rates. Separate risk free rates were adopted for East Europe and West Europe segments. The main assumptions used to calculate the segments' fair values were as follows:

Segment Core West

- terminal growth rate beyond the five-year period covered by the budget – 1%;
- risk free rate – 1.02%;
- market risk premium – 6.99%
- discount rate – 7.46%.

Segment Core East

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- risk free rate – 1.8%
- market risk premium – 7%
- discount rate – 8.29%.

For both segments the key assumptions included the level of revenues and operating expenses in each forecasted period. Those assumptions were based on a formalised process of budgeting and financial planning within the Group. The forecast level of sales was assumed to follow market trends as expected by the Group management which is supported by their views of industry analyses and market research. The level of expenses was based on historical experience and expected trends in market prices of raw materials used by the Group.

The fair value calculated using the methodology adopted by the Group for both segments is a Level 3 fair value measurement.

Based on sensitivity analysis performed, management did not identify any key assumptions, changes of which within a reasonably expected range could cause the carrying amount to exceed the recoverable amount.

7 Other operating income

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Profit on sale of property, plant and equipment	27	0
Release of bad debt allowance (see Note 26a)	1 440	0
Compensation and penalties received (1)	3 322	1 509
Rental income	194	190
Derecognition of EEG liability (2)	4 363	0
Release of unused accruals and deferred income	1 577	76
Other, including:	5 109	7 130
Government grants and public assistance (see Note 17)	*1 037*	*1 402*
Sales of excess CO2 emission rights	*1 414*	*1 007*
Operating foreign exchanges gains	*0*	*779*
Operational management of sewage treatment plant Baruth	*450*	*738*
Bonuses	*0*	*555*
Indemnity	*222*	*529*
Refund for electricity tax	*31*	*220*
Proceeds from the sale of scrap	*263*	*172*
Sale of diesel	*151*	*143*
Sale of samples	*189*	*0*
Other income	*1 352*	*1 585*
TOTAL	16 032	8 905

(1) Compensation and penalties received – the increase in year 2017 results from received insurance refunds due to the insolvency of customers.
(2) In year 2017 the Group recognised income from release of obligation for repayment of government grant supporting electricity sales due to changes in German Renewable Energy Sources Law (“EEG”)

8 Other operating costs

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Loss on disposal of property, plant and equipment	159	181
Allowance for receivables (see Note 26a)	2 640	903
Bad debt loss (1)	2 651	0
Loss on foreign exchange differences	494	225
Damages paid	308	0
Change of investment property value	73	0
Other - including:	10 808	27 327
Provision for OCCP penalty and related costs (2)	*9 088*	*0*
Antitrust provisions costs and related costs	*0*	*6 805*
Consulting	*1 127*	*3 657*
Severance payments (restructuring costs)	*0*	*7 108*
Bond	*0*	*1 257*
Costs related to restructuring of the Group	*257*	*1 475*
Property damage	*0*	*499*
Other expenses	*336*	*6 526*
TOTAL	17 133	28 636

(1) The bad debt loss refers to the receivables written off mainly due to the insolvency of the client in Core West segment (EUR 2 040 thousand).
(2) In year 2017 the Group recognised the provision regarding OCCP penalty for 2 entities in Core East. For details about the penalty please refer to Note 30.

9 Financial income and costs

Disclosed in profit or loss of the period:

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Interest income	49	3 443
Revaluation of HYB bonds (1)	8 078	0
Other financial income	0	289
Financial income	**8 127**	**3 732**
Interest expense (2)	-23 804	-29 423
Refinancing costs	-1 350	0
Redemption fee (3)	-6 334	0
Other finance costs	-3 213	-290
Financial costs	**-34 701**	**-29 713**
Exchange differences on translating foreign operations (4)	10 859	1 664
Other financial result	**10 859**	**1 664**
TOTAL	-15 715	-24 317

(1) In 2017 the Group recognised financial income from loan valuation to amortised cost in the amount of EUR 8 078 thousand, which included EUR 6 762 thousand of the reassessment from fair value to amortised cost EUR 321.6 m as of 1 August 2017 due to faster repayment of Senior Secured Notes. Simultaneously the Group recognised costs of redemption fee amounting to EUR 6 334 thousand – (3)

(2) The interest expenses include:

a) expenses on financial liabilities measured at amortised cost:
- interests for Senior Secured Notes (HYB) - EUR 14 738 thousand for 2017 (2016: EUR 25 969 thousand)
- interests for long term bank loan (TLB) – EUR 5 950 thousand for 2017 (2016: EUR 0)

b) other interest expenses (insurance/factoring interests) – EUR 3 116 thousand for 2017 (2016: EUR 3 454 thousand)

(3) The redemption fee results from earlier repayment of Senior Security Notes – please refer to point (1)

(4) Exchange differences of EUR 10.9m (EUR 1.6m for 2016) relate to subsequent valuation of intra-group loan from nominal currency (EUR) to functional currency (PLN) at the reporting date.

10 Expenses by nature

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Raw materials and consumables used	568 099	511 980
Depreciation and amortisation	73 872	71 360
Services	112 755	101 625
Taxes and charges	4 517	5 152
Employee benefit expense (see Note 11)	185 483	163 318
Other costs	24 836	22 693
Total cost	**969 562**	**876 128**
Change in inventories of finished goods and accruals and deferrals	-9 645	-3 543
Work performed by entity and capitalised	-704	-111
Total operating expenses	**959 213**	**872 474**
including:		
Distribution expenses	131 787	111 449
General and administrative expenses	51 969	49 498
COST OF SALES	775 457	711 527

11 Employee benefits cost

'000 EUR	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Salaries and wages	154 478	136 857
Social security contributions	29 778	25 841
Change in jubilee rewards	139	187
Change in retirement benefit obligations	485	286
Change in unused holiday accrual	-64	511
Change in bonus accrual	-1 848	-1 982
Change in partial retirement accruals	1 094	81
Other	1 421	1 537
TOTAL	185 483	163 318

The Group 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 in Pfleiderer Group S.A. in case certain targets are met (for details please see Note 31). 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 PLN 30 per share for Supervisory Board Members and PLN 40 per share for Management Board Members (for details regarding the conditions of the programme please refer to Note 31).

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 EUR 1 776 thousand. In the year ended 31 December 2017 the Group recognised an expense related to the programme of EUR 45 thousand (in the position Salaries and wages in the above table).

12 Income tax expense

'000 EUR	NOTE	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Income tax expense			
Current portion of income tax		-10 882	-13 185
Claimed tax refunds for previous years		-2 061	4 020
		-12 943	**-9 165**
Deferred income tax			
Relating to origination and reversal of temporary differences		-1 429	10 847
Use of tax loss carry forward asset		1 145	0
	16	**-284**	**10 847**
TAX EXPENSE RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT AND LOSS		-13 227	1 682

Reconciliation of income tax expense calculated on profit before tax at the statutory tax rate to actual income tax and the resulting effective tax rate:

'000 EUR		Jan. 1 - Dec. 31, 2017	Jan. 1 - Dec. 31, 2016
Profit before tax		**30 423**	**13 066**
Tax at domestic rate (19% in Poland)	19.00%	-5 780	-2 483
Effect of foreign tax rates	5.73%	-1 742	1 549
Tax effect on permanent differences:	14.73%	-4 481	-1 411
Non-tax-deductible expenses	1.08%	-328	-1 509
Dividends received from affiliated companies	-0.01%	3	17
Fine and penalties	5.27%	-1 604	0
Other permanent differences	8.39%	-2 552	81
Tax-exempt revenue	-1.07%	326	0
Tax refunds/ liability for previous years	6.77%	-2 061	4 020
Deferred taxes for previous years	0.00%	0	293
Other	-2.93%	891	-161
Use of tax loss carry forward asset/valuation allowance in deferred taxes	1.25%	-380	-125
INCOME TAX DISCLOSED IN THE CONSOLIDATED INCOME STATEMENT		-13 227	1 682
Effective tax rate		**43%**	**-13%**

(all amounts in EUR thousand)

13 Property, plant and equipment

Gross value	Land Buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan. 2016	**88 030**	**235 740**	**8 520**	**8 543**	**340 833**
Acquisition of subsidiaries	143 722	239 608	3 975	5 738	393 043
Increases	852	6 217	1 219	48 113	56 401
Disposals	0	-5 460	-99	0	-5 559
Transfers	2 149	26 527	391	-29 137	-70
Currency translation adjustment	-3 150	-8 899	-357	-289	-12 695
31 Dec. 2016	231 603	493 733	13 649	32 968	771 953

1 Jan. 2017	**231 603**	**493 733**	**13 649**	**32 968**	**771 953**
Acquisition of subsidiaries	0	0	0	0	0
Increases	595	16 101	1 375	50 832	68 903
Disposals	-28	-2 084	-174	0	-2 286
Transfers	3 531	19 889	397	-34 875	-11 058
Currency translation adjustment	4 531	12 216	399	814	17 960
31 Dec. 2017	240 232	539 855	15 646	49 739	845 472

(all amounts in EUR thousand)

Accumulated depreciation and impairment losses	Land	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan. 2016	**37 680**	**133 715**	**5 635**	**-**	**177 030**
Depreciation	10 994	45 524	2 212	0	58 730
Disposals	0	-5 162	-100	0	-5 262
Currency translation adjustment	-1 472	-5 755	-181	0	-7 408
31 Dec. 2016	47 202	168 322	7 566	0	223 090
1 Jan. 2017	**47 202**	**168 322**	**7 566**	**0**	**223 090**
Depreciation	11 030	48 339	1 948	0	61 317
Disposals	-11	-1 389	-151	0	-1 551
Transfers	44	-45	1	0	0
Currency translation adjustment	1 858	6 198	281	0	8 337
31 Dec. 2017	60 123	221 425	9 645	0	291 193
Net value					
31 Dec. 2016	184 401	325 411	6 083	32 968	548 863
31 Dec. 2017	180 109	318 430	6 001	49 739	554 279

Leased plant and equipment

As at 31 December 2017 and 31 December 2016, the Group held no property, plant and equipment under finance lease agreements.

Property, plant and equipment under construction
Investment projects

In 2017 the Group continues a long-term investment program designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity. The capital expenditures for the year ended 31 December 2017 were EUR 76 328 thousand (including advance payments) and EUR 52 768 thousand for 2016.

As at 31 December 2017, the Group has purchase commitments for the property, plant and equipment and intangible assets. These commitments relate to the signed agreements by the members of the Group with respect to future investments plans.

'000 EUR	31 Dec. 2017	31 Dec. 2016
Property, plant and equipment	27 783	8 761
Intangible assets	863	27
Commitment to purchase	28 646	8 788

Impairment of non-financial non-current assets

In 2017 the Management performed an impairment tests of non-financial non-current assets.

The recoverable amount of property, plant and equipment was determined based on fair value less costs of disposal. The calculation was performed based on cash flow projections adopted in budgets approved by the Management Board.

The key assumptions used to calculate the unit's fair value were as follows:

Core West Units

- terminal growth rate beyond the five-year period covered by the budget – 1%;
- risk free rate – 1.02%;
- market risk premium – 7%
- discount rate – 7.27%.

Core East Units

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- risk free rate – 1.8%
- market risk premium – 7%
- discount rate – 8.21%.

The values assigned to the key assumptions represent Management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The test did not identify any impairment of non-current assets as at the end of 2017.

(all amounts in EUR thousand)

14 Intangible assets

Gross value	Licences, computer software and other	Brand name (1)	Customer relationships (2)	Entitelment to beneficial EEG remuneration (3)	Order backlog	Total
1 Jan. 2016	**6 873**	**0**	**0**	**0**	**0**	**6 873**
Acquisition of subsidiaries	5 026	19 498	53 441	16 443	1 712	96 120
Currency translation adjustment	-105	0	0	0	0	-105
Increases	326	0	0	0	0	326
Decreases	-148	0	0	0	0	-148
Reclassifications	70	0	0	0	0	70
31 Dec. 2016	12 042	19 498	53 441	16 443	1 712	103 136
1 Jan. 2017	**12 042**	**19 498**	**53 441**	**16 443**	**1 712**	**103 136**
Acquisition of subsidiaries	0	0	0	0	0	0
Currency translation adjustment	169	0	0	0	0	169
Increases	777	0	0	0	0	777
Decreases	-10	0	0	0	0	-10
Reclassifications	11 058	0	0	0	0	11 058
31 Dec. 2017	24 036	19 498	53 441	16 443	1 712	115 130
Accumulated amortisation and impairment losses						
1 Jan. 2016	**5 916**	**0**	**0**	**0**	**0**	**5 916**
Amortisation	1 642	0	6 680	4 308	1 712	14 342
Decreases	-148	0	0	0	0	-148
Currency translation adjustment	-65	0	0	0	0	-65
31 Dec. 2016	7 345	0	6 680	4 308	1 712	20 045
1 Jan. 2017	**7 345**	**0**	**6 680**	**4 308**	**1 712**	**20 045**
Amortisation	2 864	0	6 680	2 403	0	11 947
Decreases	63	0	0	0	0	63
Currency translation adjustment	168	0	0	0	0	168
31 Dec. 2017	10 440	0	13 360	6 711	1 712	32 223
Net value						
31 Dec. 2016	4 697	19 498	46 761	12 135	0	83 091
31 Dec. 2017	13 596	19 498	40 081	9 732	0	82 907

(1) The Group considers the brand name “Pfleiderer” acquired in the acquisition on 19 January 2016 as having an indefinite useful life. The acquired brand name is the principle branding of the Group’s organization and products. As such its useful life is linked to the operations of the Group as a whole. The Group therefore expects the economic benefits of this brand to be generated over a long period of time and currently the determination of its useful life is not relevant.

(2), (3) At the acquisition on 19 January 2016 the Group recognised also the following intangible assets:

- Customer relationships – the Group identified non-contractual customer relationships in two segments: “Handel” (retail partners defined as “premium partners” and individually addressed) and “Industrie” (Top Customers which are offered various dedicated services);

(all amounts in EUR thousand)

- Entitlement to beneficial EEG remuneration – the Core West units generate electricity, which is fed into the public electricity grid and remunerated based on the regulations of the German Renewable Energy Sources Act ("EEG")

The remaining useful lives of the above described intangible assets as at 31 December 2017:

	Gross book value as of 31 Dec 2017	Remaining useful life (years)
Customer relationships Handel	37 727	6
Customer relationships Industrie	15 714	6
Beneficial EEG remuneration Baruth	8 841	5
Beneficial EEG remuneration Guetersloh	5 698	3

15 Investment property

As at 31 December 2017, the Group recognised investment property in the amount of EUR 850 thousand (PLN 3 550 thousand), 31 December 2016: EUR 875 thousand (PLN 3 860 thousand).

Investment property comprises of land held in perpetual usufruct, located at Bolesławiecka Street in Wieruszów, with a total area of 2.7835 ha, which as at the end of 2017 was not used for production purposes, sale of goods, rendering of services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

Until 22 November 2010, it had been classified as an agricultural land, but according to the construction plan of the S-8 express way in the immediate vicinity of the property, the Group's Management Board treats the property as a potential source of future rental income and expects a considerable capital increase of the property.

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers determine the fair value of the Group's investment property each year.

As at 31 December 2017, according to the valuer's opinion, taking into account current market and economic conditions the fair value of investment property amounted to PLN 3 550 thousand, which equals to EUR 850 thousand (categorised as a Level 2 fair value).

Changes in fair values are recognised as costs and included in 'other operating costs'.

16 Deferred income tax asset and liability

'000 EUR	Deferred tax assets	Deferred tax liabilities 31 Dec. 2017	Net	Deferred tax assets	Deferred tax liabilities 31 Dec. 2016	Net
Non-current assets						
Property, plant and equipment	8 657	53 584	-44 927	7 159	54 880	-47 721
Intangible assets	43	17 356	-17 313	54	24 446	-24 392
Investment property	0	0	0	0	0	0
Securities	0	3	-3	0	1	-1
Loans advanced	0	0	0	0	0	0
Other assets	502	2 434	-1 932	0	0	0
Other non-current financial assets	1	20	-19	17	0	17
Current assets						
Inventories	255	88	167	373	22	351
Other current financial assets	0	0	0	0	0	0
Trade and other receivables	9 451	155	9 296	2 543	1 096	1 447
Cash and cash equivalents	0	0	0	0	1	-1
Non-current liabilities						
Provisions	1 018	0	1 018	345	74	271
Employee benefit obligations	0	0	0	622	0	622
Financial debts	900	5 414	-4 514	2 357	0	2 357
Other liabilities	77	0	77	6	0	6
Pension provisions	6 720	0	6 720	7 905	0	7 905
Current liabilities						
Trade and other payables	1 299	10 609	-9 310	1 524	635	889
Employee benefit obligations	436	0	436	0	0	0
Other liabilities	5	0	5	58	36	22
Total tax loss brought forward	1 145	0	1 145	0	0	0
Deferred income tax assets/liability	**30 509**	**89 663**	**-59 154**	**22 963**	**81 191**	**-58 228**
Deferred income tax assets and liability offset	-24 038	-24 038	0	-17 015	-17 015	0
TOTAL	6 471	65 625		5 948	64 176	

Changes related to temporary differences during the reporting period:

'000 EUR	1 Jan. 2017	Recognised in profit or loss	Recognised in OCI	Acquired from business combi-nations	Currency translation adjustment	31 Dec. 2017
Non-current assets						
Property, plant and equipment	-47 721	2 794				-44 927
Intangible assets	-24 392	7 079				-17 313
Investment property	0	0				0
Securities	-1	-2				-3
Loans advanced	0	0				0
Other assets	0	-1 932				-1 932
Other non-current financial assets	17	-36				-19
Current assets						
Inventories	351	-184				167
Other current financial assets	0	0				0
Trade and other receivables	1 447	7 849				9 296
Cash and cash equivalents	-1	1				0
Non-current liabilities						
Provisions	271	747				1 018
Employee benefit obligations	622	-622				0
Financial debts	2 357	-6 871				-4 514
Other liabilities	6	71				77
Pension provisions	7 905	-223	-962			6 720
Current liabilities						
Trade and other payables	889	-10 519			320	-9 310
Provisions	0	0				0
Employee benefit obligations	0	436				436
Other liabilities	22	-17				5
Total tax loss brought forward	0	1 145				1 145
TOTAL	-58 228	-284	-962	0	320	-59 154

'000 EUR	1 Jan. 2016	Recognised in profit or loss	Recognised in OCI	Acquired from business combi-nations	Currency translation adjustment	31 Dec. 2016
Non-current assets						
Property, plant and equipment	-740	12 036	0	-58 359	-658	-47 721
Intangible assets	0	2 671	0	-29 383	2 320	-24 392
Investment property	-120	120	0	0	0	0
Securities	0	-1	0	0	0	-1
Loans advanced	-2	2	0	0	0	0
Other assets	0	1	0	85	-86	0
Other non-current financial assets	1	15	0	1	0	17
Current assets						
Inventories	337	378	0	-364	0	351
Other current financial assets	-20	20	0	0	0	0
Trade and other receivables	165	-3 587	0	4 869	0	1 447
Cash and cash equivalents	0	-1	0	0	0	-1
Non-current liabilities						
Provisions	38	-543	0	776	0	271
Employee benefit obligations	431	191	0	0	0	622
Financial debts	0	-5 717	0	8 074	0	2 357
Other liabilities	0	4 541	0	-4 535	0	6
Pension provisions	0	643	651	6 611	0	7 905
Current liabilities						
Trade and other payables	389	500	0	0	0	889
Provisions	0	98	0	0	-98	0
Employee benefit obligations	528	-528	0	0	0	0
Other liabilities	0	22	0	0	0	22
Total tax loss brought forward	14	-14	0	0	0	0
TOTAL	1 021	10 847	651	-72 225	1 478	-58 228

17 Government grants receivable and deferred income under government grants

The Group has been awarded two government grants concerning economic assistance received under the following arrangements:

1) Pursuant to a project co-financing agreement concluded between Pfleiderer MDF Grajewo Sp. z o.o. (a Group company) and the Polish Minister of the Economy on 30 October 2006, the subsidiary of the Group received EUR 6 017 thousand as an investment grant for the construction of the MDF plant with a biomass-fired boiler house.

   The grant consisted of EUR 5 795 thousand to cover capital expenditures and EUR 222 thousand to cover two-years of labour costs following the creation of 55 new jobs. The total amount was received by the Group in 2007 and recognised as deferred income. The amount of EUR 5 795 thousand is amortised to other income over the useful life of property, plant and equipment to which the grant relates.

   The amount of EUR 222 thousand was amortised to other income over a period of two years starting from 1 January 2007.

2) On 10 November 2005, Pfleiderer MDF Grajewo Sp. z o.o., a subsidiary entity, received a permit to conduct business activities in the Suwałki Special Economic Zone ("SSEZ"), thus becoming eligible to receive additional public assistance in the form of a corporate income tax exemption, provided that the company satisfies certain

conditions (which are discussed below).

The permit was granted until 1 September 2016, following the fulfilment of certain conditions.

The Polish Minister of the Economy, in the decision dated 7 November 2014, deemed Pfleiderer MDF Grajewo Sp. z o.o.'s permit to conduct business activities in SSEZ valid until the date on which the SSEZ is to be discontinued (currently 31 December 2026). The permit's conditions include the requirement to incur capital expenditures of at least EUR 78 million by 31 December 2009, to hire at least 120 employees by 1 January 2010, to maintain the employment level until 31 December 2014, and to satisfy other requirements imposed by the laws governing the SSEZ.

As at the end of 2016 and 2017 the company met all the significant requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditures of up to EUR 50 million, 50% of half of the amount of expenditures in excess of EUR 50 million and up to EUR 100 million, and 34% of half of the amount of expenditure in excess of EUR 100 million.

The Group recognised a government grant assets and corresponding deferred income (current and non-current) with respect to the arrangement. The Group realised its government grant assets through the amount of the corporate income tax relief obtained through the exemption.

The value of the government grant realised in 2017 amounted to EUR 1 056 thousand. As of 31 December 2017 in relation to the updated budget of Pfleiderer MDF Grajewo Sp. z o.o., the Group reassesed government grant asset to the amount of EUR 9 361 thousand.

Deferred income under government grants is amortised based on the weighted average depreciation rate applicable to the property, plant and equipment for which the government grants were obtained.

The table below presents the structure of the deferred income with espect to government grants and the amounts released to other income in 2017 and 2016.

Type of public assistance '000 EUR	Investment grant	Corporate income tax exemption	Total
1 Jan. 2016	3 251	24 716	27 967
Amortization	-194	-1 208	-1 402
Reassessment of government grants	0	-7 290	-7 290
Currency translation adjustments	-106	-729	-835
31 Dec. 2016	**2 951**	**15 489**	**18 440**
1 Jan. 2017	2 951	15 489	18 440
Amortization	-196	-860	-1 056
Reassessment of government grants	0	-9 053	-9 053
Currency translation adjustments	165	865	1 030
31 Dec. 2017	**2 920**	**6 441**	**9 361**
Non-current portion	2 724	6 083	8 807
Current portion	196	358	554
TOTAL	2 920	6 441	9 361

As at 31 December 2017, the Group performed an analysis and reassessment of the amount of government grants. Following the analysis, the Group revised the carrying amount of government grants in the form of a corporate income tax exemption. In 2017 the amount of the government grant assets and liabilities decreased by EUR 9 053 thousand. The amount of the government grant receivable of EUR 5 275 thousand represents the estimated corporate income tax relief based on the exemption for the future periods of the Group's operations in the SSEZ. The amount was estimated based on the updated budget projections approved by the Management Board in each year. Management Board adopted budget assumptions, which are a basis for the estimation of the government grants amount based on historical results and expectations as to market developments. The growth rate does not exceed the long-term average rate for the manufacturing sector in Poland. The estimated amount of government grants is not discounted.

The table below presents the structure of the government grant receivable.

'000 EUR	Government grant receivables
1 Jan. 2016	22 299
Realisation	-793
Reassessment of government grants	-7 290
Currency translation adjustments	-653
31 Dec. 2016	**13 563**
1 Jan. 2017	13 563
Realisation	7
Reassessment of government grants	-9 053
Currency translation adjustments	758
31 Dec. 2017	**5 275**
Non-current portion	5 275
Current portion	0
TOTAL	5 275

18 Inventories

'000 EUR	31 Dec. 2017	31 Dec. 2016
Materials and merchandise	51 135	52 678
Semi-finished products and work in progress	1 749	866
Finished goods	42 849	38 213
Advances for deliveries	568	146
TOTAL	96 301	91 903

Inventories are presented in the consolidated statement of financial position at net realisable value, i.e. net of write-downs of EUR 9 820 thousand (31 December 2016: EUR 9 791 thousand).

19 Trade and other receivables

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Trade receivables	7 310	8 717
Trade receivables from related parties	13	8
Current prepayments and accrued income	764	1 652
Current VAT receivables	7 280	2 857
Other receivables	20 306	19 644
TOTAL	35 673	32 878

The amount of EUR 20 306 thousand of other receivables as at 31 December 2017 (EUR 19 644 thousand as at 31 December 2016) included, among others:

- EUR 14 257 thousand as at 31 December 2017 (EUR 10 079 thousand as at 31 December 2016) relates to factoring continuing involvement and represents the risk reserve of the factor;
- EUR 835 thousand as at 31 December 2017 (EUR 3 409 thousand as at 31 December 2016) in a bank account with restricted access for distribution to secured creditors of the insolvency proceedings (Core West);
- EUR 3 872 thousand as at 31 December 2017 (EUR 2 562 thousand as at 31 December 2016) receivables related to energy regulations refund.

As at 31 December 2017, trade receivables were reduced by impairment allowance of EUR 3 013 thousand (31 December 2016: EUR 1 940 thousand).

Trade and other receivables include the following financial receivables:

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Trade receivables	7 310	8 717
Trade receivables from related parties	13	8
Other receivables	15 194	15 006
TOTAL	22 517	23 731

Factoring of receivables

As of 31 December 2017, the trade receivables sold as part of a West Europe ABCP (asset-backed commercial papers) transaction were derecognised, with the exception of certain purchase price reductions retained to minimize risk for the buyer of the receivables. The factoring program of East Europe takes place under a "non-recourse factoring" agreement in terms of which, with the exception of the deductible, the receivables sold were derecognized as of 31 December 2017.

East Europe (Core East)

As at 4 December 2017, a new factoring agreement with Bank Millennium S.A. was established.

For Core East the factoring agreements with BZ WBK Faktor Sp. z o.o. (PLN 100 000 thousand for Pfleiderer Polska Sp. z o.o. and PLN 15 000 thousand for Pfleiderer Silekol Sp. z o.o.) were terminated on 5 December 2017. The term of the agreements with PEKAO Factoring Sp. z o.o. is definite. Agreements are automatically rolled by another 12 months if neither party notifies the other party of its intention not to extend agreement, provided that such notice will be sent no later than 2 months before the expiry of a given agreement.

As at 31 December 2017, the terms of and credit limits under the agreements were as follows:

Factoree:	Expiry date:	Factor:	Limit:
Pfleiderer Polska Sp. z o.o.	31 March 2018	PEKAO Faktoring Sp. z o.o.	PLN 150 000 thousand
Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o.	indefinite term	Bank Millenium S.A.	PLN 260 000 thousand

On 31 August 2016 the agreement between Pfleiderer Group SA and PEKAO Faktoring Sp. z o.o. (PLN 100 000 thousand) was transferred to Pfleiderer Grajewo Sp. z o.o. and on 29 December 2016 to Pfleiderer Polska Sp. z o.o. and merged with the limit of PLN 50 000 thousands for Pfleiderer MDF Sp. z o.o. as in December 2016 Pfleiderer MDF Sp. z o.o. notified PEKAO Faktoring Sp. z o.o. about its intention not to continue the agreement. As the result this agreement was in force until 28 February 2017 when it expired.

Securitization Program (Core West)

Certain companies of the Pfleiderer Deutschland GmbH Group (formerly Pfleiderer Holzwerkstoffe GmbH), Pfleiderer Arnsberg GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Heller Holz GmbH, JURA-Spedition GmbH and Pfleiderer Gütersloh GmbH are party to a securitization program arranged by Commerzbank Aktiengesellschaft through Silver Tower asset-backed commercial paper and medium-term note programs. The participation is, interalia, based on a receivables purchase and servicing agreement and substitute servicing agreements, all initially dated 15 October 2012. Under the receivables purchase agreement, trade receivables are sold by the relevant companies of the Group as sellers and servicers to a third party purchasing company. The purchase of receivables is made without recourse to the respective sellers. The sellers are obligated (jointly and severally) to indemnify the purchaser for any damages suffered as a result of breach of representations, warranties and covenants. The sellers are obliged to disclose the assignments of the receivables to the relevant customers and such customers must pay directly to the bank accounts of the securitization program's special purpose vehicle. Subject to certain servicing termination events, the respective sellers will continue to service the sold receivables. The sellers are obligated to pay to the purchaser certain fees as set forth under a program fee letter, in particular an administration fee of 0.30% annually calculated on the aggregate amount of purchase prices for all receivables with a minimum fee of EUR 150 000 per annum, to reimburse refinancing costs and pay fees with respect to exchange of pound sterling amounts (in which certain of the receivables are denominated) to euro.

The securitization program provides for financing volume of up to EUR 60.0 million in Core West for sold eligible receivables. As of 31 December 2017, under the securitization program in Core West, accounts receivables in the amount of EUR 38 million had been sold.

The table below presents the amounts of the trade receivables sold under the factoring agreements and carrying amounts of the receivables and the related liabilities which continue to be recognised in the statement of financial position:

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Total trade receivables before derecognition of sold receivables	82 131	77 534
Receivables derecognised from the statement of financial position	-74 808	-68 809
Trade receivables	**7 323**	**8 725**
Factored receivables as at the end of the reporting period	78 898	73 162
Derecognised receivables	-74 808	-68 809
Receivables recognised in the statement of financial position up to the amount of continuous involvement	**4 090**	**4 353**
Settlement of factoring services		
Factored receivables as at the end of the reporting period	78 898	73 162
Payments made by customers, not passed to the factor	-32 787	28 440
Other settlements with the factor - cash in transit	14 219	0
Payments received concerning receivables derecognised from the statement of financial position	-22 278	-68 809
Factoring liabilities as at the end of the reporting period	**38 052**	**32 793**

20 Equity

The par value of the share is denominated in PLN and thus is presented in that currency (last line of the following table) and is translated into EUR at its historical exchanges rates:

	31 Dec. 2017	31 Dec. 2016
Par value of share capital (PLN)	21 351 332	21 351 332
Number of shares at beginning of period (fully paid up)	64 701 007	49 624 000
Number of shares at end of period (fully paid up)	64 701 007	64 701 007
Par value per share (PLN)	0.33	0.33
Par value of share capital ('000 EUR)	6 692	6 692
Number of shares at beginning of period (fully paid up)	64 701 007	49 624 000
Number of shares at end of period (fully paid up)	64 701 007	64 701 007

All shares issued by the Company are ordinary shares. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares are entitled to the same rights to share in the distribution, if any, of the Company's assets.

a. 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.

As at 31 December 2017 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.

The shareholder structure as at 31 December 2017 was as follows:

Shareholding structure	Number of share	Ownership interest	Number of votes on GM	% 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%

(*) 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.

From the date of registration, in 1994 to December 1996 the Group 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.

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.

Announced treasury shares repurchase programme

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.

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 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.

b. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs. For the financial year ended 31 December 2017 share premium remained at unchanged level of EUR 146 375 thousand.

c. 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) and any additional appropriations from net profits.

In 2017, the Group transferred EUR 32 181 thousand from the Statutory reserve funds to the Reserve for own shares.

d. Nature and purposes of reserves

(i) Revaluation reserve

Revaluation reserve includes the effects of the fair value measurement of land held in perpetual usufruct by a subsidiary Pfleiderer Wieruszów Sp. z o.o. upon reclassification from property, plant and equipment to investment property.

Until 22 November 2010, the land was classified as agriculture land, and its fair value was estimated by an independent valuer at EUR 271 thousand. The land was initially recognized in the statement of financial position in the amount of EUR 126 thousand (PLN 540 thousand). The surplus between the book value and the fair value of land in the amount of

EUR 145 thousand was recognised in the revaluation reserve.

(ii) Translation reserve

The translation reserve (Exchange Rate Differences reserve) comprises all foreign currency differences arising from the translation of the Core East financial statements from functional currency to presentation currency.

(iii) Hedging reserve

The hedging reserve (Cash Flow Hedges reserve) comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

e. Dividends

On 25 April 2017 the Management Board of the Parent Company adopted its recommendation regarding distribution of 2016 net profit of the Parent for the period of 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 remaining part of the Parent Company profit for 2016 in the amount of EUR 31 123 thousand (PLN 135 885 thousand) is recommended to be allocated to the Parent's Company reserves.

On 9 May 2017 the Supervisory Board of the Parent Company positively opinioned the above recommendation of the Management Board.

On 21 June 2017 the Ordinary General Shareholders Meeting of the Pfleiderer Group S.A. adopted a resolution concerning distribution of net profit for the period from 1 January to 31 December 2016, providing for the dividend payment for the Company's shareholders in the amount of PLN 71 171 107.70 representing PLN 1.10 per each Company' share. All of the Company's shares are covered by the dividend, i.e. 64 701 007 shares. Additionally, the Ordinary General Shareholders Meeting of the Company set the following dates: 1) a dividend date (the date used to prepare the list of shareholders eligible to receive the dividend) set for 5 July 2017, and 2) dividend payment date set for 19 July 2017.

21 Earnings per share

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding during the twelve months.

The calculation of diluted earnings per share has been based on the following profits attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

Net profit of the owners of the Company attributable to ordinary shares for the financial year ended 31 December 2017 amounted to EUR 17 139 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2016 was EUR 14 748 thousand.

The weighted average number of ordinary shares outstanding for the respective periods used to calculate basic and diluted earnings per share was as follows:

Shares number (excluding treasury shares)	Number of days	31 Dec. 2017	31 Dec. 2016
1 January	285	64 701 007	49 624 000
Equity increase 19 January 2016		0	15 077 007
Shares buy-back 12 October 2017 (see Note 21a)		-3 235 050	0
31 December	80	61 465 957	64 701 007
Weighted average shares number		63 991 955	63 918 321

	1 Jan – 31 Dec. 2017	1 Jan – 31 Dec. 2016
Basic earnings per share	0.27	0.23
Diluted earnings per share	0.27	0.23

22 Borrowings and other debt instruments

Non-current borrowings and other debt instruments:

'000 EUR	31 Dec. 2017	31 Dec. 2016
Non-current portion of interest-bearing bonds	0	329 762
Bank borrowings	336 155	0
TOTAL	336 155	329 762

Current borrowings and other debt instruments:

'000 EUR	31 Dec. 2017	31 Dec. 2016
Current portion of interests–bearing bonds	0	10 555
Current portion of bank borrowings	2 333	0
Other interest bearing liabilities	196	343
TOTAL	2 529	10 898

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 are 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 the total amount of PLN 7 265 thousand as well as Letters of Credit in an amount of EUR 2 733 thousand. The 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.

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 Millenium 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 Millenium 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 roled-into new ancillaries under the new financing
***) Total RCF-limit with Commerzbank AG is EUR 15m, adding cash-line and ancillary used for guarantees

Financing Core West (excluding ABCP 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 roled-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

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

The loan is eliminated in the consolidated financial statement.

23 Employee benefit obligations

'000 EUR	31 Dec. 2017	31 Dec. 2016
Salaries and wages	4 849	7 273
Personal income tax	3 358	3 094
Social security	1 397	1 449
Social benefits fund	423	233
Retirement benefit obligation	53 618	57 004
Unused holiday accrual	1 885	1 861
Employee bonus accrual	8 434	7 591
Other personal liabilities	1 219	506
TOTAL	75 183	79 011
Non-current portion	53 389	56 893
Current portion	21 794	22 118
TOTAL	75 183	79 011

Core West:

Pfleiderer Group grants its employees defined benefit pension commitments on a case-by-case basis. In addition, there are still prior commitments in place from various pension systems, the benefits of which cover pensions for old age, disability and surviving dependents. The pension funds were closed to new entrants on or before 31 May 1986.

There are several defined benefit pension plans and individual commitments to current and former employees in effect within the Pfleiderer Group. Some defined benefit pension plans are final salary plans, while others provide for fixed pension amounts. The amount of pension payments is also based on the beneficiary's seniority. All pension plans are subject to the legal provisions of the German Company Pension Act [Betriebsrentengesetz]. Among other things, this legislation stipulates that, from the outset, the amount of benefits disbursed must be adjusted in line with the development of the general consumer price index. Because the pension obligation is coupled to the consumer price index, the pension plan is subject to risks due to changes in the rate of inflation, interest and the life expectancy of pension beneficiaries. For the reporting periods ending on 31 December, pension provisions were comprised as follows:

'000 EUR	31 Dec. 2017	31 Dec. 2016
Defined benefit obligation (Core West)	51 082	54 636
Retirement bonuses long term (Core East)	2 307	2 257
Retirement bonuses short term (Core East)	229	111
TOTAL	53 618	57 004

Benefits disbursed under defined benefit pension plans in Germany are primarily a function of the number of years of an employee's service, the individual's age, and his or her salary. The costs and obligations arising under defined benefit pension plans are determined on the basis of actuarial reports prepared using the projected unit credit method. This method considers the services already performed by the employees in relation to the valuation date and also includes estimates with regard to future salary and pension trends. Within the reports drawn up for the valuation at 31 December 2017, the following assumptions were made for the defined benefit plans:

	31 Dec. 2017	31 Dec. 2016
Discount factor	1.65%	1.33%
Wage increase rate	2.50%	2.50%
Pension adjustment	1.80%	1.80%

The discount factor applied roughly corresponds to the interest rate that could be achieved for blue-chip, fixed-interest corporate bonds (AA rating) with a corresponding maturity on the market on the valuation date of the benefit obligation. The annual rate of salary increases, together with pension adjustments, was taken into account in the calculation of pension entitlements.

With respect to defined benefit plans, the Group's obligation is to provide benefits to active and former employees as promised.

The following table explains the change in the defined benefit obligation as reported in the consolidated financial statements as of 31 December 2017. There are no plan assets. The provision thus corresponded to the benefit obligation (shortfall).

'000 EUR	31 Dec. 2017	31 Dec. 2016
Initial recognition Core West	54 636	49 911
Current service cost	297	318
Interest expenses	888	892
Subtotal reported in the profit/loss for the period	1 185	1 210
Pension payments	-2 357	-2 457
Acturial gains and losses from changes to financial assumptions	-2 395	6 053
Experience based adjustments	13	-81
Subtotal in other comprehensive income	-2 382	5 972
Defined benefit obligation	51 082	54 636

The present value of the defined benefit obligation (DBO) not covered by plan assets as of the reporting date amounted to EUR 51 082 thousand (shortfall).

In 2017, the experience-based adjustments to benefit obligations amounted to EUR 13 thousand and the actuarial losses due to changes in financial assumptions amounted to EUR 2 395 thousand.

At the end of the reporting period, the average maturity of the defined benefit obligation amounted to 13.6 years.

The benefit obligations were calculated based on the 2005 G Heubeck mortality tables.

A quantitative sensitivity analysis of the key assumptions as of the reporting date is shown below.

'000 EUR	31 Dec. 2017	31 Dec. 2016
Effect on the defined benefit obligation		
Increase of the interest rate by 0.25%	-1 628	-1 761
Decrease of the interest rate by 0.25%	1 719	1 860
Increase of the future pensions by 0.25%	1 391	1 482
Decrease of the future pensions by 0.25%	-1 332	-1 419
Increase of the life expectancy of pension recipients by 1 year	3 082	3 189

The above sensitivity analyses have been specifically and individually evaluated; these values are not the outcome of a process of estimation. The probability of fluctuation does not represent a significant actuarial assumption, as the pension funds were closed to new entrants on or before 31 May, 1986, and the probability of fluctuation approaches zero with advancing age.

Core East:

Retirement bonus and disability obligations

Under the Core East segment remuneration plans, employees of the Group are entitled to retirement payments payable to employees after a defined number of years in service as well as retirement benefits, paid 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 (60 years for woman, 65 years for men, based on the transitional regulations – signed by the Polish President on 19 December 2016), who has the required documented years of service, is entitled to receive retirement benefits. Employees with permanent work disability, with an entitlement to disability benefits under the social security scheme, are entitled to receive disability severance payments. The amount of retirement payment or disability severance payment is computed based on the employee's one-month pay. The amount of the bonus or severance payment increases proportionately following ten years of service at the Group at the rate of 10% of the base pay for each year of service in excess of ten years, and following 20 years of service at the Group – at the rate of 20% of the base pay for each year of service in excess 20 years. Pursuant to Art. 92 §1 of the Labour Code, retirement bonuses 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 in the financial year ended 31 December 2017:

- Data on staff turnover was derived from the statistics of Core East entities, as well as 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 2016 Life Expectancy Tables for Poland compiled by the Central Statistics Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the mortality rate of the population of the Group's employees is similar to 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 calculated based on the historical data from the Social Insurance Institution and estimates prepared by an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. According to the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does not demonstrate significant sensitivity to slight changes of this parameter.
- The retirement age for women is 60 years/ men is 65 years (The law signed by the President on 19 December 2016 r., taking into account the transitional regulations).
- All benefits were calculated at the beginning of each calendar year, with the assumption that all of them are regularly distributed throughout the year.
- The increase in salaries and wages was assumed at 3% per annum.
- The discount rate on future benefits was assumed at 3.24%.

24 Provisions

'000 EUR	1 Jan. 2017	Reclassification	Additions	Utilisation	Reversal	Currency difference	31 Dec. 2017
Non-current							
Restructuring costs	1 926	-1 737	50	-147	-92	0	0
Severance payments	775	0	1 194	-21	-1 444	0	504
Other provisions	993	0	5	-69	14	6	949
Current							
Court proceedings (see Note 30)	7 650	0	0	-3 900	-600	0	3 150
OCCP penalty and related costs (see Note 30)	0	0	9 261	0	0	0	9 261
Restructuring costs	5 132	1 737	225	-2 926	-1 024	0	3 144
TOTAL	16 476	0	10 735	-7 063	-3 146	6	17 008

'000 EUR	1 Jan. 2016	Acquisition	Additions	Utilisation	Reversal	Currency difference	31 Dec. 2016
Non-current							
Restructuring costs	0	0	1 926	0	0	0	1 926
Severance payments	0	995	1 325	-27	-1 518	0	775
Other provisions	201	736	108	-48	0	-4	993
Current							
Court proceedings (*)	0	2 050	5 600	0	0	0	7 650
Restructuring costs	0	0	5 132	0	0	0	5 132
TOTAL	201	3 781	14 091	-75	-1 518	-4	16 476

(*) Provision for court proceedings – the category covers the provision regarding antitrust proceedings for West (for details please see Note 30). The data for 2016 has been changed for comparability reasons – details of the reclassification are described in Note 28.

Provision for restructuring costs – the provision relates to redundancy payments due to the restructuring the Group is undergoing and was raised based on agreement with the German central works council. Settlement will be according to the terminations of the individual employments.

Severence payments provision – redundancy packages for employees electing early retirement. Settlment will be paid according to the terminations of the individual employments.

25 Trade and other payables

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Trade payables	112 591	80 693
Liabilities under factoring agreements	38 052	32 793
Insolvency-related liabilities of PCF GmbH	7 748	10 322
VAT liabilities	898	486
Liabilities for capital expenditures	11 282	2 527
Liabilities for derivatives (forward transactions)	0	724
Prepaid deliveries	6	354
Other liabilities	12 391	16 212
TOTAL	182 968	144 111

Other liabilities as of 31 December 2017 comprised mainly of:

• tax liability related to the acquisition EUR 5 326 thousand (EUR 5 422 thousand as of 31 December 2016),

• other tax payables of EUR 2 718 thousand (EUR 2 311 thousand as of 31 December 2016) and

• provisions for the cost of emission rights EUR 718 thousand (EUR 616 thousand as of 31 December 2016).

• other cost accruals of EUR 2 346 thousand (EUR 1 335 thousand as of 31 Dec 2016)

For details on liabilities under factoring agreements, see Note 19.

Trade and other payables include the following financial liabilities:

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Trade payables	112 591	80 693
Trade payables to related parties	0	0
Liabilities under factoring agreements	38 052	32 793
Liabilities from capital expenditures	11 282	2 527
Liabilities from derivatives (forward transactions)	0	724
Other liabilities	2 002	5 591
TOTAL	163 927	122 328

26 Financial instruments

Objectives and methods of financial risk management applied by the 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, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

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

– credit risk

– market risk, including:

- 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 program (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 unfavorable effects of changes in market risk factors on the cash flows and financial results.

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

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 unfavorable 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 analyzed 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.

a. 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 securedwith insurance (77% in 2016). 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.

The total credit risk exposure was as follows:

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Long term investments	511	515
Loans advanced and receivables	22 516	23 731
Cash and cash equivalents	83 845	97 726
TOTAL	106 872	121 972

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

	31 Dec. 2017	
'000 EUR	Gross value	Impairment loss
Not overdue	10 633	0
Overdue by:		
0 - 180 days	10 144	1 965
180 - 360 days	199	352
More than 360 days	654	696
TOTAL trade receivables before deducting sales rebates	21 630	3 013

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

	31 Dec. 2016	
'000 EUR	Gross value	Impairment loss
Not overdue	16 909	585
Overdue by:		
0 - 180 days	2 095	143
180 - 360 days	0	0
More than 360 days	1 314	1 212
TOTAL trade receivables before deducting sales rebates	20 318	1 940

Movements in the impairment allowance for trade receivables for the twelve months ended 31 December 2017 and 31 December 2016 are presented below.

'000 EUR	31 Dec. 2017	31 Dec. 2016
Balance at the beginning of the period	**1 940**	**1 698**
Increase of the allowance (see Note 8)	2 640	903
Utilisation of the allowance	-420	-605
Release (see Note 7)	-1 440	0
Currency translation adjustments	293	-56
TOTAL	3 013	1 940

b. Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings and TLB. The Gorup also incurres costs of interests under factoring agreements. 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.

'000 EUR	31 Dec. 2017	31 Dec. 2016
Financial assets	34 059	14 086
Financial liabilities	338 684	0
Variable-rate financial instruments	372 743	14 086

Sensitivity analysis of cash flows for variable-rate financial instruments

The below interest rates variations were calculated based on observations of interest rates fluctuations in 2017 and 2016.

A 100 basis points (1%) change in interest rates would lead to a change in net profit by the amounts presented below. The analysis is based on the assumption that other variables, especially currency exchange rates, remain unchanged. The following analysis refers to cash flows:

	1 Jan 2017 – 31 Dec 2017		1 Jan 2016 – 31 Dec 2016	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Variable-rate financial instruments and effect on profit/(loss) before tax	-836	836	-615	615
Effect on equity excluding P&L affect	-	-	-	-

Sensitivity analysis of fair value of fixed-rate financial instruments

The Group does not hold any financial assest 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 the statement of profit and loss and other comprehensive income through changes in the fair value of financial instruments.

c. Currency risk – transaction risks

The Group is exposed to currency risk mainly due to the extent that there is a mismatch between the currencies in which trade transactions, purchases of materials and merchandise and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is primarily 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.

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

	31 Dec. 2017			
'000 EUR	EUR	USD	PLN	GBP
Cash	11 621	62	1 386	0
Trade receivables	19 363	18	13	970
Other receivables	0	0	0	0
Trade and other payables, investment payables, factoring payables	-18 554	0	0	0
Other liabilities	-5 044	0	0	0
Statement of financial positions exposure, gross	**7 386**	**80**	**1 399**	**970**
Transactions in derivate instruments:				
forward transactions	-17 700	0	0	0
TOTAL	-10 314	80	1 399	970

	31 Dec. 2016		
'000 EUR	EUR	USD	RUB
Cash	4 408	106	0
Trade receivables	7 204	53	0
Other receivables	3	0	0
Trade and other payables, investment payables, factoring payables	-13 194	0	0
Other liabilities	-5 044	0	-11
Statement of financial positions exposure, gross	**-6 623**	**159**	**-11**
Transactions in derivate instruments:			
hedging of future transactions	-24 000	0	0
forward transactions - Pfleiderer Silekol Sp. z o.o.	-7 100	0	0
TOTAL	-37 723	159	-11

Sensitivity analysis for 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 and equity as specified below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

	31 Dec. 2017	
'000 EUR	5%	-5%
EUR	369	-369
USD	4	-4
PLN	70	-70
GBP	49	-49
EFFECT ON PROFIT/LOSS BEFORE TAX	492	-492
EFFECT ON EQUITY	-885	885

	31 Dec. 2016	
'000 EUR	5%	-5%
EUR	-330	330
USD	8	-8
RUB	0	0
EFFECT ON PROFIT/LOSS BEFORE TAX	-322	322
EFFECT ON EQUITY	-1 556	1 556

The sensitivity analysis was based on the following exchange rates of the EURO against other currencies:

'000 EUR	31 Dec. 2017	31 Dec. 2016
EUR	1.0000	1.0000
RUB	69.3920	64.3000
PLN	4.1770	4.4103
USD	1.1993	1.0541
GBP	0.8872	0.8562

d. Liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date:

	31 Dec. 2017						
'000 EUR	Carrying amount	Contractual cash flows	below 6 months	6 - 12 months	1 - 2 months	2 - 5 months	More than 5 years
Liabilities under borrowings and other debt instruments	338 684	445 822	7 039	7 156	14 350	42 777	374 500
Trade and other payables	163 927	163 927	163 921	5	0	1	0
TOTAL	502 611	609 749	170 960	7 161	14 350	42 778	374 500

	31 Dec. 2016 (restated)						
'000 EUR	Carrying amount	Contractual cash flows	below 6 months	6 - 12 months	1 - 2 months	2 - 5 months	More than 5 years
Liabilities under borrowings and other debt instruments	340 660	398 025	12 829	12 846	25 333	347 017	0
Trade and other payables	122 328	122 328	122 210	109	9	0	0
TOTAL	462 988	520 353	135 039	12 955	25 342	347 017	0

As at 31 December 2017, the Group's debt outstanding under the bank borrowings and issued debt instruments was EUR 338 684 thousand (EUR 340 660 thousand as at 31 December 2016), unused credit facilities amounted to EUR 93 468 thousand (EUR 101 512 thousand as at 31 December 2016). The Group also held cash of EUR 83 845 thousand (EUR 97 726 thousand as at 31 December 2016).

e. 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 with the exception of the High Yield Bond, listed at the Irish Stock Exchange, quoted at 104.187% of par value (level 1) on 31 December 2016, equal to EUR 335 153 thousand (carrying amount of EUR 329 762 thousand, plus accrued interest of EUR 10 555 thousand).

f. Valuation of financial assets and liabilities at fair value

As at 31 December 2017, the Group held 17 open forward contracts with a nominal exposure amounting to EUR 17 700 thousand. The fair value of the open contracts amounted to EUR 380 thousand (receivables), based on level 2 input factors.

As at 31 December 2016, the Group held 15 open forward contracts with a nominal exposure amounting to EUR 31 100 thousand. The fair value of the open contracts amounted to EUR 724 thousand (liability), based on level 2 input factors.

Market comparison techniques are used in measuring fair value of currency forward contracts. The fair value is based on brokers quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

g. Capital management

The Group defines equity as the carrying amount of its total equity translated in EUR at a historical rates.

The key ratio used by the Group to monitor equity is the ratio of equity to total assets. At the end of 2017, the ratio decreased from 28.71 % to 25.4% .

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

'000 EUR	31 Dec. 2017	31 Dec. 2016 (restated)
Equity	239 902	271 255
Total assets	944 483	944 927
Ratio = Equity/Total assets	25.40%	28.71%

The capital employed is managed on a basis that enables the Group to continue trading as a going concern, while delivering acceptable returns to shareholders and benefits for other stakeholders. Additionally, the Group is also committed to reducing its cost of capital by maintaining an appropriate capital structure.

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 of debt in the horizon of five years, and then arranging rhe appropriate sources of funding, in the form of bank loans, capital market instruments, factoring and ABCP program. Cash Management at Pfleiderer Group aims at optimizing 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 due to the large export and import is exposed. Pfleiderer Group finances its operations through own funds as well as revolving credit facility and a so-called TLB (term loan B) – for details please see Note 22.

27 Operating lease agreements

The Group leases a number of production assets under operating leases and a property. The leases typically run for a period of 3-7 years and agreements will expire in 2018-2050 (leased land ends in 33 years).

The Group also leases vehicles and IT equipment under operating lease agreements. The leases typically run for 3-5 years and the agreements will expire in 2018-2022.

Monthly lease payments are charged to the reporting period's profit or loss using the straight-line method.

The costs incurred by the Group under the operating lease agreements in 2017 were EUR 11 581 thousand (in 2016: EUR 9 804 thousand).

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

'000 EUR	31 Dec. 2017	31 Dec. 2016
More than 5 years	11 230	17 483
From 1 to 5 years	14 562	18 968
Up to one year	8 231	8 347
TOTAL	34 023	44 798

28 Changes in the presentation of prior period data

The data presented in the annual consolidated financial statement for year 2016 has been changed due to reclassifications implemented in order adjust to the current accounting policy of the Group:

1. The accrued amount for sale rebates for the Group's clients has been presented as reduction of trade receivables instead of trade payables;
2. Provisions for antitrust proceedings has been presented as provisions instead of other liabilities.

The table below presents the impact of reclassifications on the financial statements positions:

'000 EUR	31 Dec. 2016
1. Accruals for sale rabates	
Trade and other receivables	-9 653
Trade and other payables	-9 653
2. Provisions for antitrust proceedings	
Trade and other payables	-7 650
Provisions (short term)	7 650

29 Securities

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

- a EUR 350.0 million 7-year covenant-lite term loan B facility 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 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 the power of attorney to exercise corporate right from the pledged shares in favor of Trigon Dom Maklerski S.A. (the "Polish Security Agent").

Following the initial utilization 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 alios, Pfleiderer Group S.A. and certain of its subsidiaries as borrowers, the Security Agent and certain financial institutions as original lenders and the EUR 321 684 thousand Senior Secured Notes due 1 August 2017 issued by PCF GmbH 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. 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 Trigon Dom Maklerski S.A. (the "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 the submissions to enforcement (oświadczenie o poddaniu się egzekucji) in favour of the Security Agent.

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

Following the initial utilization 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 alios, Pfleiderer Group S.A. and certain of its subsidiaries as borrowers, the Security Agent and certain financial institutions as original lenders and the EUR 321 684 thousand Senior Secured Notes due 1 August 2017 issued by PCF GmbH 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 the members of the Group

As at 13 April 2017, certain members of the Group have guaranteed the liabilities under the EUR 450 000 000 senior facilities agreement, such members of the Group are: Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH, Pfleiderer Wieruszów Sp. z o.o. (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 13 April 2017.

30 Contingent liabilities

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 potential tax liability described below.

Eastern Europe:

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

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

According to the Decision, the agreement was in force from the beginning of 2008 to 7 September 2011.
The President of the OCCP imposed a fine of PLN 15 958 thousand on Pfleiderer Group S.A. and PLN 19 805 thousand on Pfleiderer Wieruszów sp. z o.o.
The Decision ended the antimonopoly proceedings initiated by the President of the OCCP in 2012. The decision is not legally 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 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 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.

Furthermore the Decision results in a risk of claims for damages against the companies Pfleiderer Group S.A. and Pfleiderer Wieruszów sp. z o.o. This risk cannot be quantified based on the evidence and information available at this time.

Western Europe:

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

As described below, two of the Pfleiderer Group's customers have sued the Pfleiderer Group for damages in con-nection 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 a provision 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 judgement 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 best knowledge Classen has not filed an appeal against this judgement 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 oral hearing on 2 February 2017, the court has not clearly indicated 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 recognized by the Group in these consolidated financial statements. Accrued legal costs for Classen are comprised in the total amount of EUR 3 150 thousand.

In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfleiderer Group's customers, filed an action for damages with the regional court of 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 has passed a judgement on 31 May 2016. According to it 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. In light of the change in shareholders in 2012, there are certain 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 subsid-iaries in 2012 may not be utilized in full. The extent to which this also applies to an entity with joint tax-filing status has yet to be fully determined. 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.In addition, there was a change in shareholders at the level of the shareholder of PCF GmbH in December 2015, which may lead to uncertainty with regard to the possibility of tax loss utilization for the 2015 financial year. As at 31 December 2017 the management assessed the risk 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 recognized by the Group in these consolidated financial statements.

For cross boarder supplies and services between affiliated companies the prices have to be at the arm's length principle. The companies of the Pfleiderer Group have to document this in the Transfer Price Documentation. The companies of the Pfleiderer Group can choose the transfer price method as well as the margin. But the tax audits could determine that the chosen transfer pricing method or the margin was not correct. Following on from this, taxes could be higher for allocated costs for the supplies and services between the affiliated companies. This would lead to higher taxes and therefore represents a risk. As at 31 December 2017 the management assessed the risk 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 recognized by the Group in these consolidated financial statements.

In 2014 PCF GmbH (and its subsidiaries) recognized valuation allowances for receivables to the so-called "Non-Core"- companies of the former Pfleiderer Group in respect of foreign currency gains recognised on these receiva-bles 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 cause additional tax payments. As at 31December 2017 the management assessed the risk related to this uncertain tax position and it has determined that not all of the condi-tions have been met to require recognition of a provision for this matter. Therefore as at 31 December 2017 no provision has been recognized by the Group in these consolidated financial statements.

PCF GmbH is subject to a tax risk regarding the restructuring gain incurred in 2012 in connection with the insolven-cy 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 Fi-nance dated 27 March 2003 (so called "Sanierungserlass") which ensures a preferential treatment of the restruc-turing gain is incorrect. 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. As at 31 December 2017 the management assessed the risk 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 recognized by the Group in these consolidated financial statements.

Moreover the Group has tax liabilities for the expected outcome of the tax audit for years 2010-2015 conducted in Germany amounting to EUR 7.2 million, which was created in past years and increased by EUR 1.2 million this year.

31 Key management personnel compensation

As of 31 December 2017 the Management Board consists of Tom K. Schäbinger (President and CEO), Dirk Hardow (COO), Ivo Schintz (CCO) and Richard Mayer (CFO).

Remuneration of members of the Company's Management Board, including bonuses, paid and payable, for the reporting period:

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

No member of the Company's Management Board had loan-related debt towards the Group.

(*) The amount presented in the annual consolidated financial statements for the year ended 31 December 2016 as a Management board remuneration (EUR 2 517 thousand) was calculated on a cash basis, the amount EUR 2 500 thousand is calculated on accrual basis, for comparability reasons.

Beside the regular remuneration of Mr. Rafał Karcz, the Group recorded an expense for severance payment (termination benefits) due to his earlier termination of the contract in the amount of EUR 682 thousand.

In addition, members of Pfleiderer Group S.A Management Board received the following short – term employee benefits for holding management positions at Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer Polska Sp. z o.o. and Pfleiderer Benelux B.V.:

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

(*) The amount presented in the annual consolidated financial statements for the year ended 31 December 2016 as a Management board remuneration at Pfleiderer Wieruszów Sp. z o.o. (EUR 333 thousand) was calculated on a cash basis, the amount EUR 240 thousand is calculated on accrual basis, for comparability reasons.

Beside the regular remuneration of Mr. Wojciech Gątkiewicz, the company of the Group Pfleiderer Polska Sp. z o.o. recorded an expense for severance payment due to his earlier termination of the contract in the amount of EUR 229 thousand.

As at the end of 2017 members of the Management held the following number of Pfleiderer Group shares:

- President of the Management Board Tom K. Schäbinger - 16 250 Company shares

As of 31 December 2017 the members of the Management Board 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 is entitled a maximum of two years' basic salary limited to the remaining term of his contract. The contract provides a non-compete covenant of Mr. Schäbinger for a period of 12 months after expiration of the contract in exchange for a compensation payable by the PCF GmbH, amounting to 50% of average remuneration received by Mr. Schäbinger in a period of 12 months preceding the expiration date of the contract. PCF GmbH may waive the post-contractual non-compete covenant subject to 3-month notice.

- Mr. Richard Mayer – contracts with PCF GmbH until 31 December 2018; in the event of termination before this date is entitled a maximum of two years' 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 earlier termination is entitled a maximum of two years' basic salary limited to the remaining term of his contract.

- Mr. Ivo Schintz – contract with Pfleiderer Group S.A. concluded for indefinite period of time; contract may be terminated subject to 12 – month notice by the employer and 6 – month notice by the employee. Further contract with Pfleiderer Benelux B.V. concluded for indefinite period of time; contract may be terminated subject to 12 – month notice by the employer and 6 – month notice by the employee. The contract provides a non-compete covenant of Mr. Schintz for a period of 12 months after expiration of the contract in exchange for a compensation payable by the Company, amounting to 50% of remuneration received by Mr. Schintz in a period of 12 months preceding the expiration date of the contract. The Company may rescind the non-compete covenant.

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

On 27 February 2018 PCF GmbH executed with Mr. Dirk Hardow the supplement to the above-described contract, which provides a non-compete covenant of Mr. Hardow for a period of 12 months after expiration of the contract in exchange for a compensation payable by the PCF GmbH, amounting to 50% of average remuneration received by Mr. Hardow in a period of 12 months preceding the expiration date of the contract. PCF GmbH may waive the post-contractual non-compete covenant subject to 3-month notice.

On 27 February 2018 PCF GmbH executed with Mr. Richard Mayer the termination agreement, which terminates the contract between the parties with effect as of 30 April 2018. Pursuant to the termination agreement Mr. Mayer is entitled to a severance payment amounting to EUR 276 666.

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 of the Group appointed Mr. Tom K. Schäbinger as the President of the Management Board and the Chief Executive Officer. The changes are effective as of 1 June 2017.

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

On 13 September 2017 the member of the Management Board of the Company, Mr. Rafał Karcz, submitted his resignation from the Management Board. His resignation was effective beginning from 30 September 2017.

Events after the reporting period

On 27 February 2018 Mr. Richard Mayer submitted the resignation from the Management Board of the Company. The resignation takes effect from 31 March 2018.

On 27 February 2018 the Supervisory Board of the Company decided to appoint Dr. Nico Reiner to the Management Board of the Company as the Member of the Management Board (Chief Financial Officer). The appointment of Dr. Nico Reiner takes effect from 1 April 2018.

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 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 EUR 45 thousand (for details please refer to Note 11).

Short-term employee benefits paid to members of Pfleiderer Group S.A. Supervisory Board in the reporting period were as follows:

'000 EUR	31 Dec. 2017	31 Dec. 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, members of the Supervisory Board of Pfleiderer Group S.A. had no outstanding debt under loans from the Group.

Members of the Pfleiderer Group S.A. Supervisory Board 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 the Supervisory Board members incumbent as at 31 December 2017 will expire at the latest on the date of holding the General Meeting which will approve the financial statements for the last full fiscal year during which they held the positions of Supervisory Board members, i.e., on the day of adoption of the resolution on the approval of financial statements for the fiscal year ended 31 December 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 a Supervisory Board members appointed before the end of the given term will expire simultaneously with the tenures of the remaining Supervisory Board members.

Changes in Supervisory Board

On 26 September 2017 Mr. Stefan Wegener and Mr. Tod Kersten submitted the resignations from the positions of members of the Company's Supervisory Board. The above resignations became effective on 18 October 2017 i.e. on the date of appointment by the General Meeting of Shareholders new members of the Supervisory Board in place of the members who submitted the resignations. On 18 October 2017 the Extraordinary General Meeting of Shareholders of the Company appointed to the Supervisory Board Mr. Florian Kawohl and Mr. Anthony O'Carroll.

32 Events subsequent to the end of the reporting period

Determination of the detailed terms of the buy-back

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

Filing the appeals against the decision of the OCCP

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

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 the above mentioned purchased 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., has appointed Dr. Nico Reiner as the new Board Member and Chief Financial Officer starting 1 April 2018. Dr. Nico Reiner will replace Richard Mayer, who decided not to extend his contract.

Management Board of Pfleiderer Group S.A.

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

Wrocław, 10 April 2018

PFLEIDERER

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MANAGEMENT BOARD REPORT

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

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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

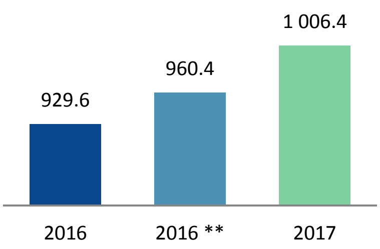
GOOD SET OF FINANCIAL RESULTS SUPPORTED BY FAVOURABLE MARKET CONDITIONS

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

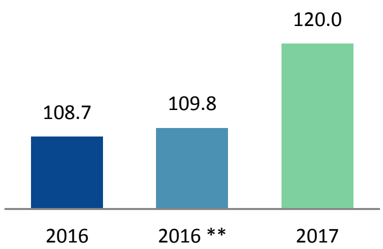
*Calculation comprised 12 months 2016 EBITDA without first 19 days of January 2016 of Core West

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

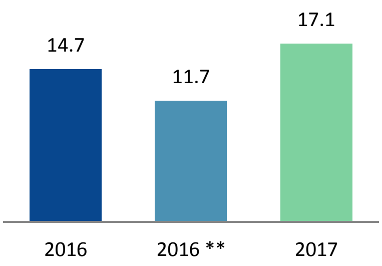
REVENUES (EUR M)



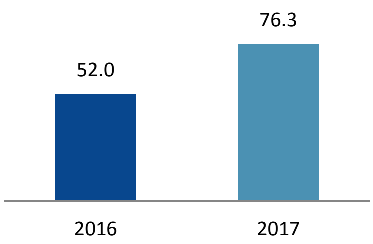
REPORTED EBITDA (EUR M)



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.

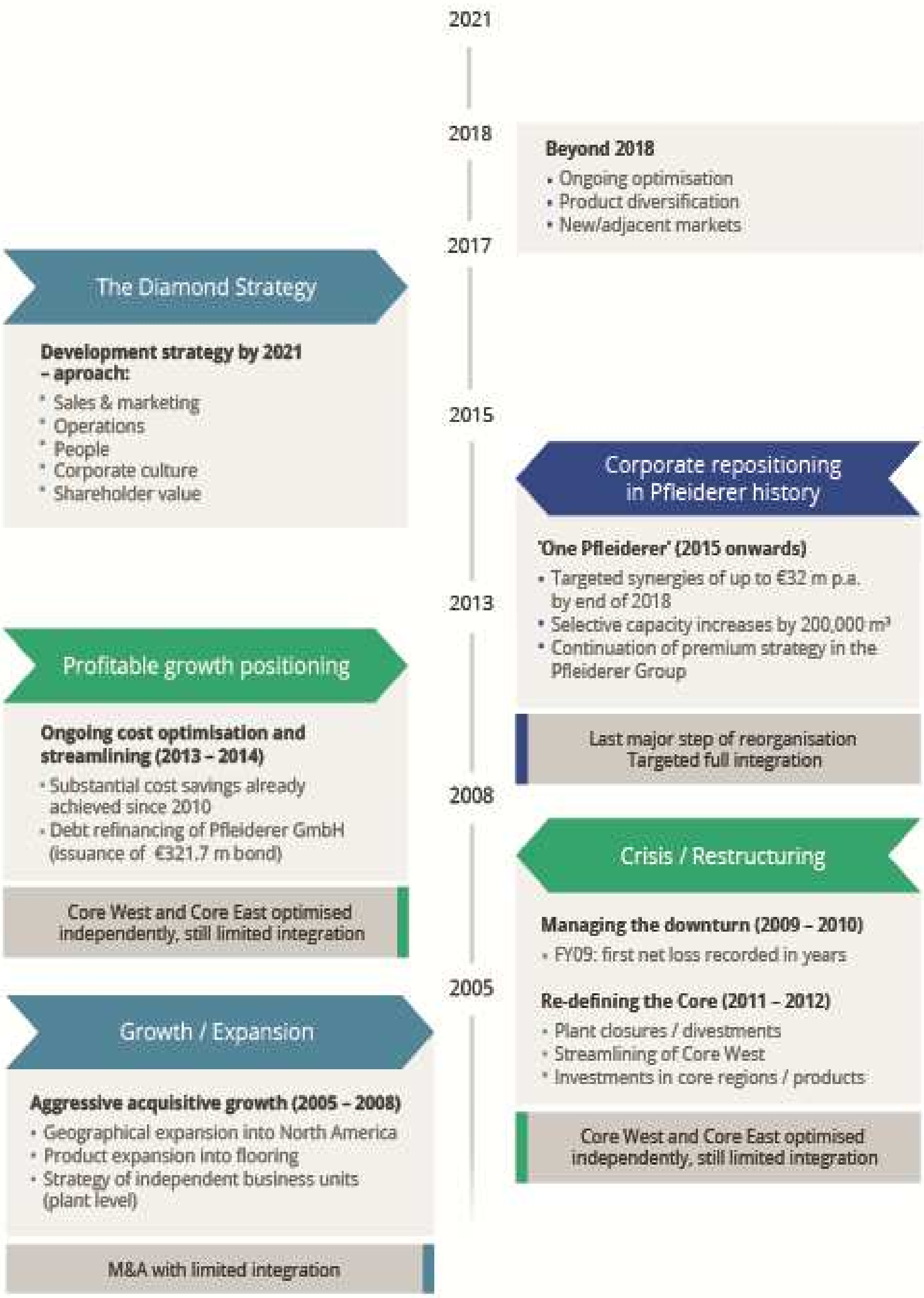
The Pfleiderer Group consists of entities with varying profiles of activity.

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	✗	✗	✗	✗	

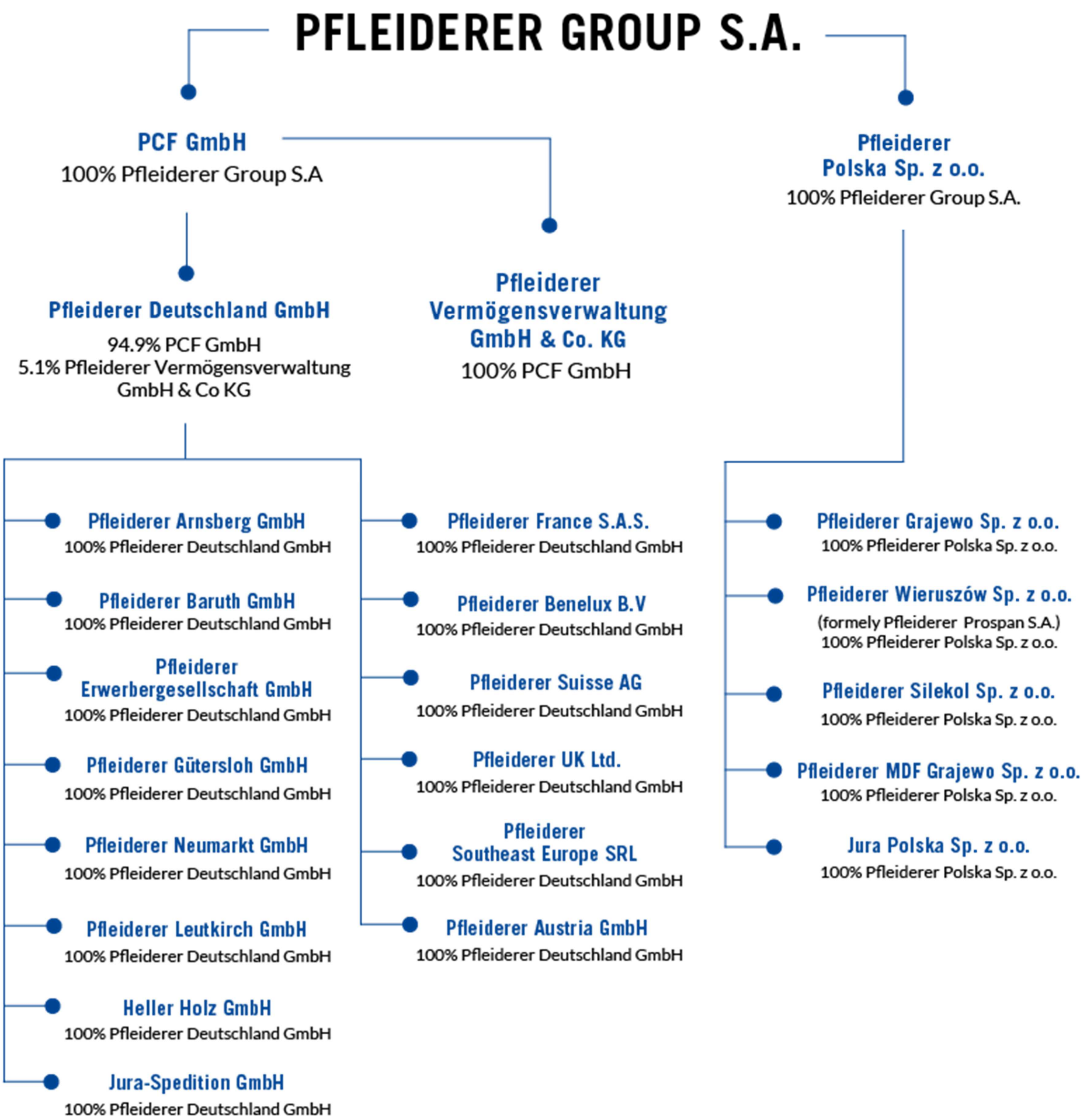
[1]Electricity generated as by-product of cogeneration plants and sold through the market
[2]Basic products relate to commodity products (i.e. raw particleboard, medium-density fiberboard and high-density fiberboard)
Source: Pfleiderer, Association of German Timber Industries (VHI)

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

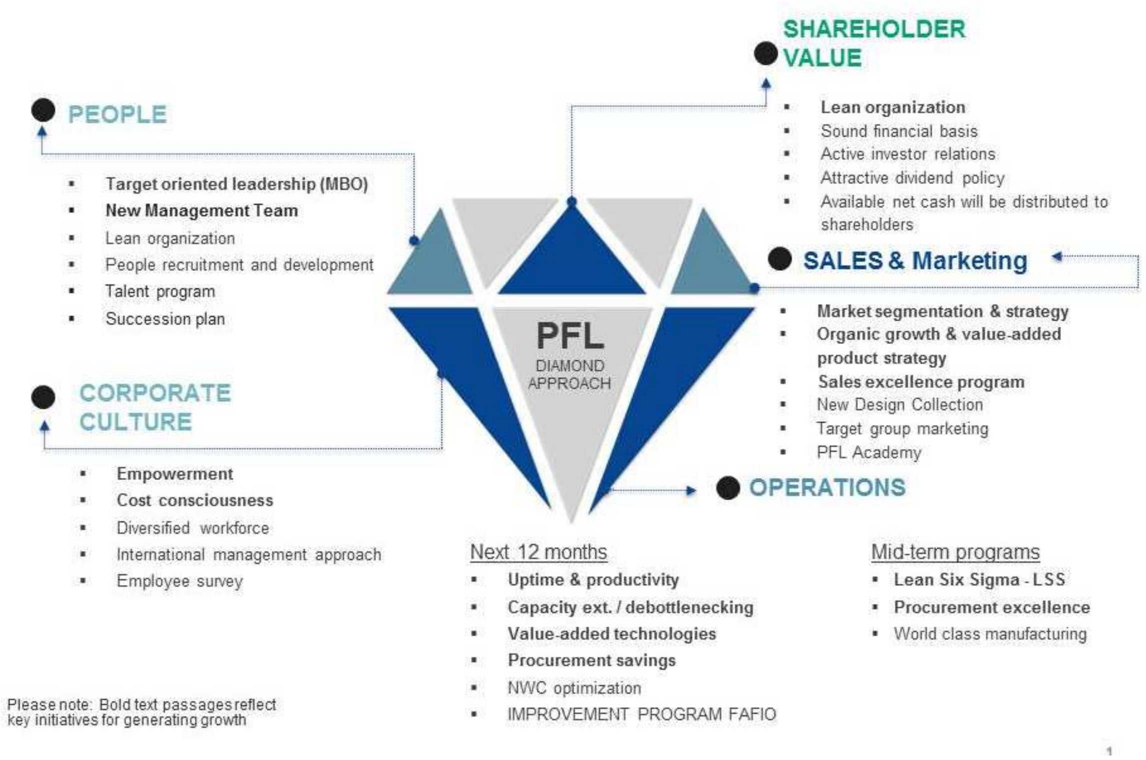
Pfleiderer Group has implemented an efficiency improvement programme to exert a positive impact on operating results. The goal is to improve all CPL, MDF and PB lines and upgrade productivity. Pfleiderer will focus on optimising production costs and de-bottlenecking.

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.

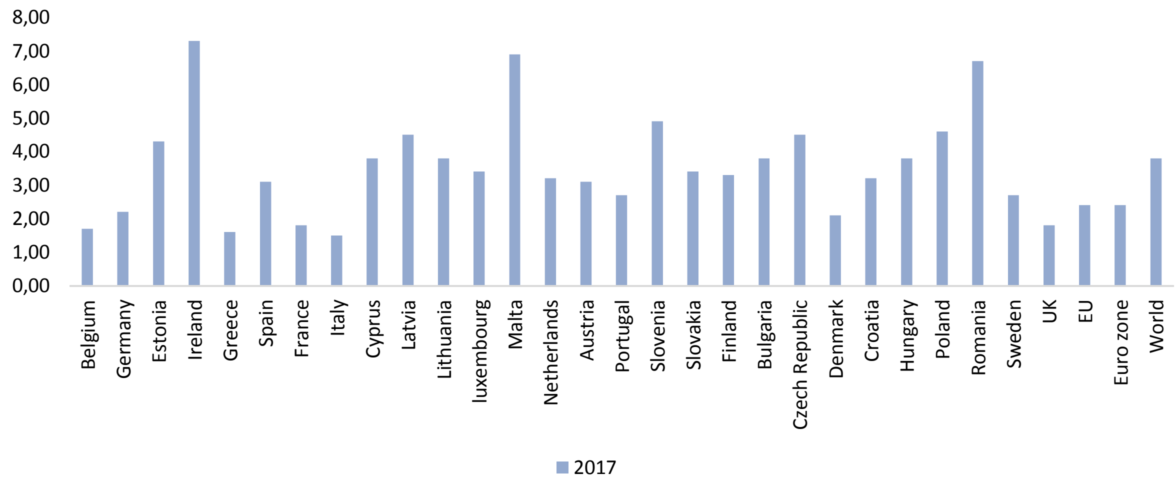
We believe that only with insight into customer needs will be able to create products perfectly responding to their needs. Sometimes limited optimisation of an existing product is sufficient while other times a completely new product should be created. The crucial point is delivering the best value proposition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

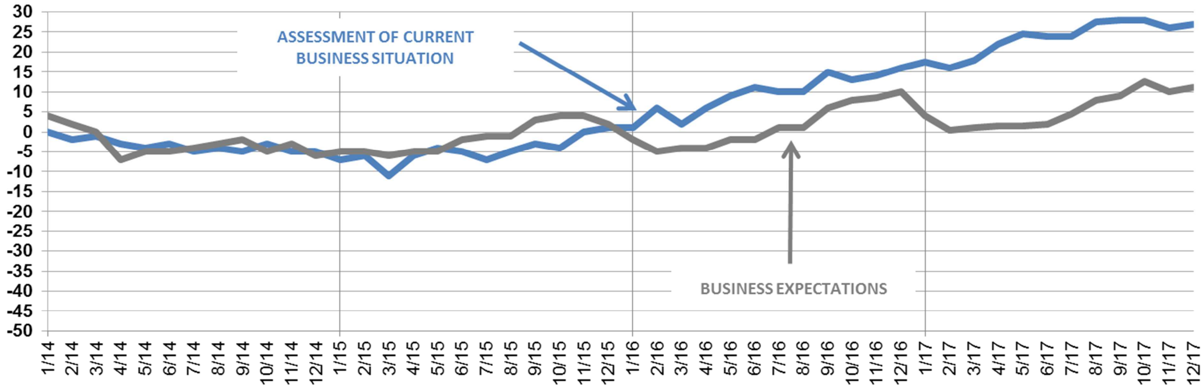
In Poland economic growth remained buoyant in 2017. GDP grew by an estimated 4.6% in 2017 as a whole. Private consumption was the main growth driver. Having risen in the second half of the year, investment activity partly rebounded from the decline in 2016. Public investment is expected to have recovered 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.

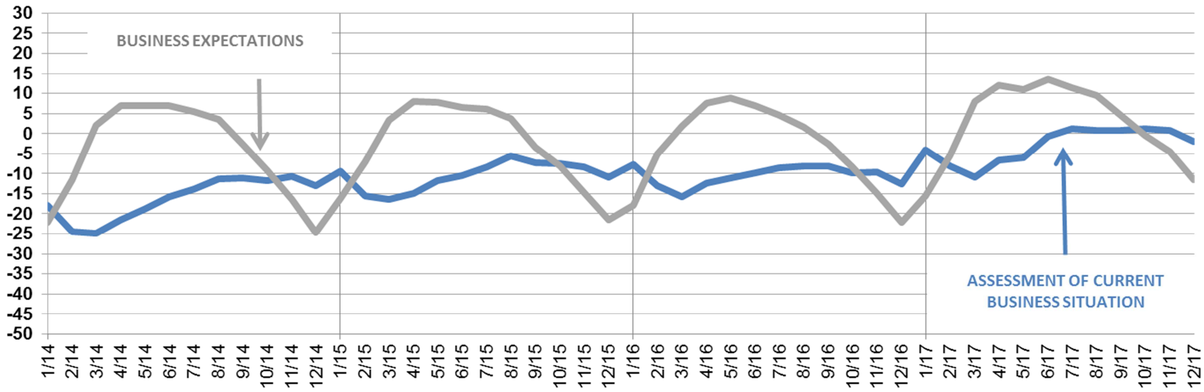
FIGURE 7: BUSINESS CLIMATE IN THE CONSTRUCTION INDUSTRY – GERMANY



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



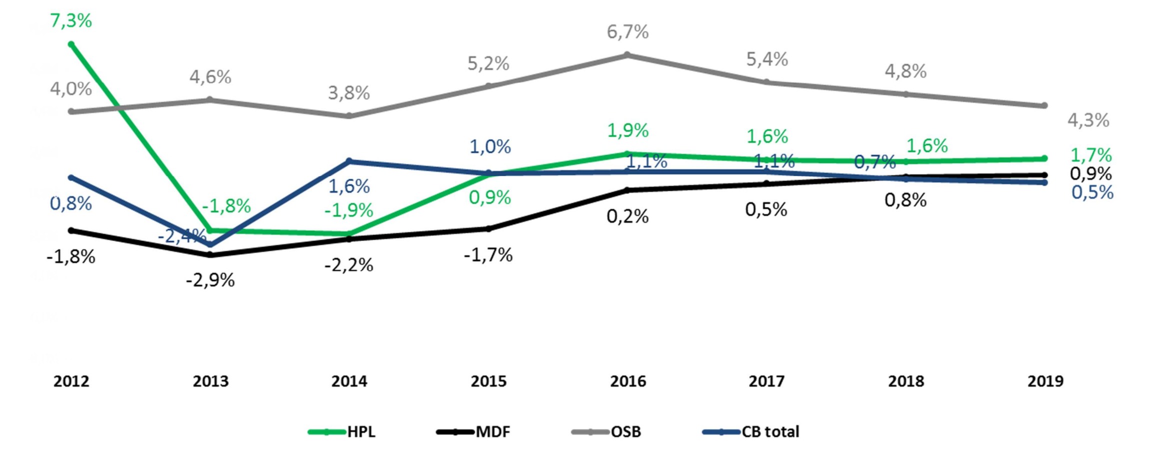
Source: own calculation based on GUS

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.

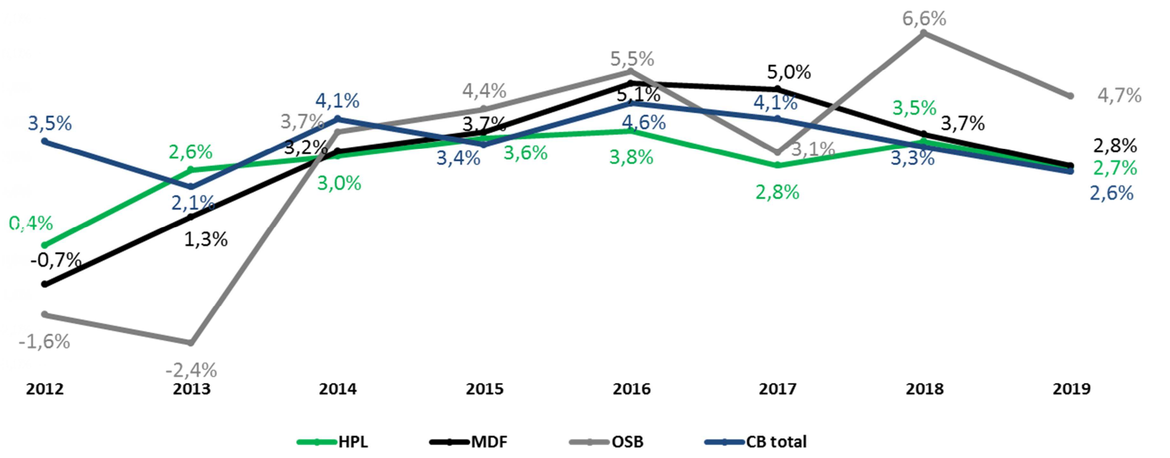
The OSB market features the highest CAGR. Moderate positive change is expected in the HPL market in both regions and in the MDF/HDF and chipboard markets in Poland.

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

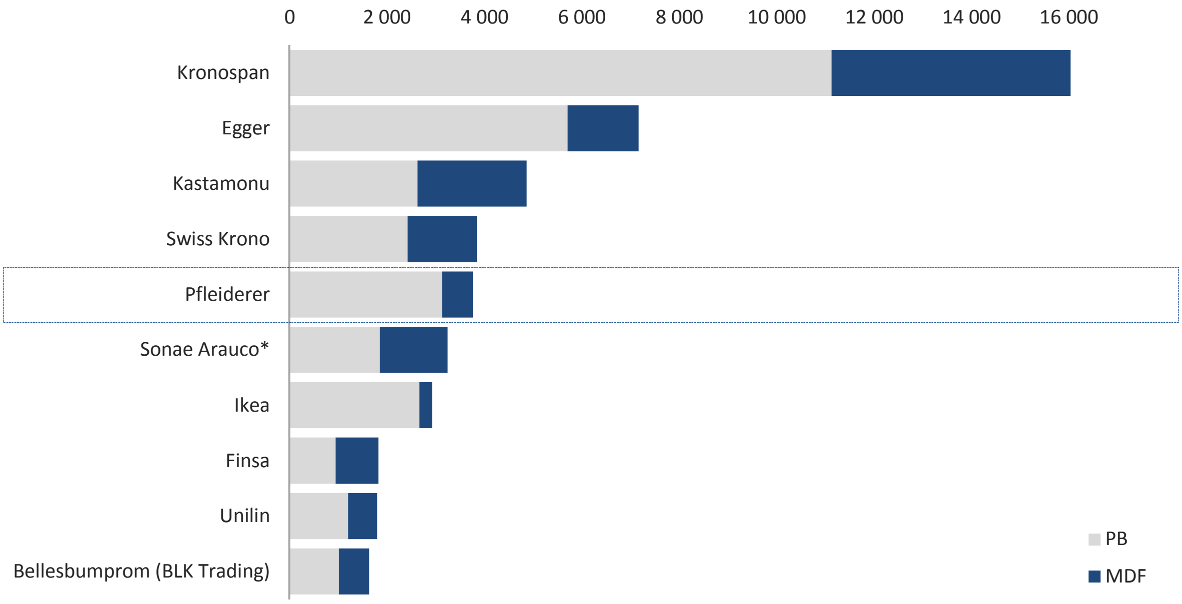


Source: own calculation based on construction& furniture market data provider

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

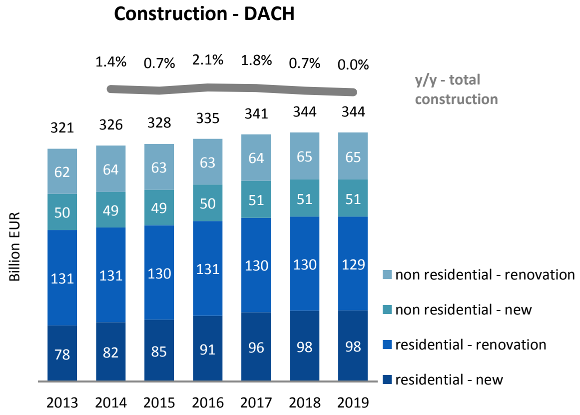
	CAGR 2017-2019		
	Total	Residential	Non-residential
Poland	3.8%	4.2%	3.5%
DACH	0.4%	0.4%	0.3%
Germany	0.0%	0.3%	-0.5%
Austria	1.3%	1.3%	1.4%
Switzerland	1.5%	0.3%	3.1%
France	3.2%	3.6%	2.7%
Italy	1.8%	1.6%	2.0%
United Kingdom	0.5%	1.1%	0.0%
Belgium	1.7%	1.6%	1.8%
Netherlands	3.8%	3.8%	3.7%

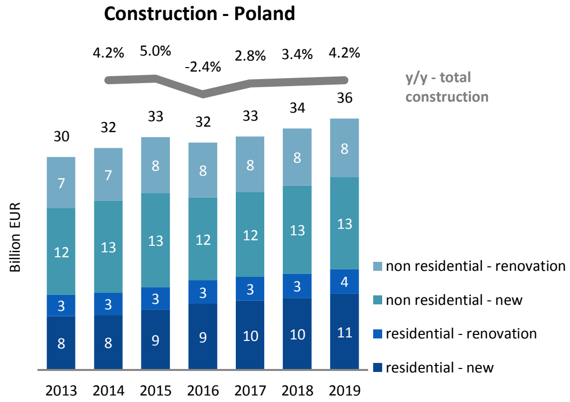
Source: own calculation based on construction market data provider

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

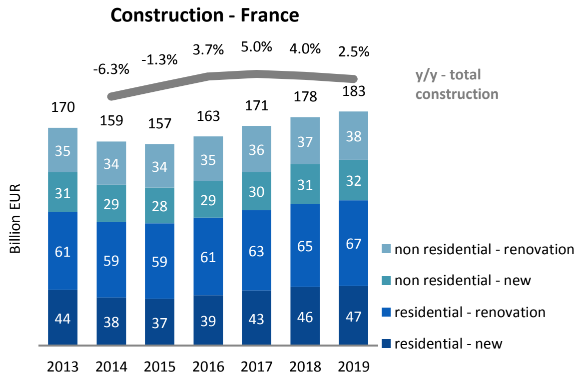


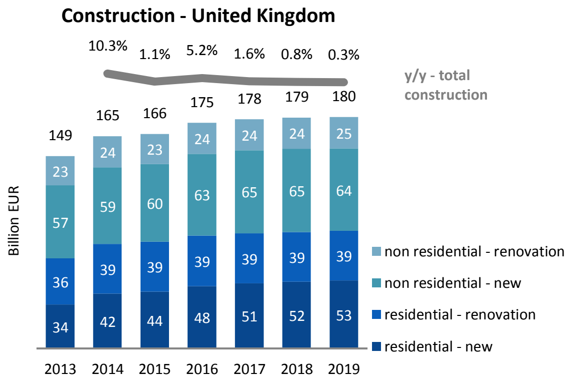


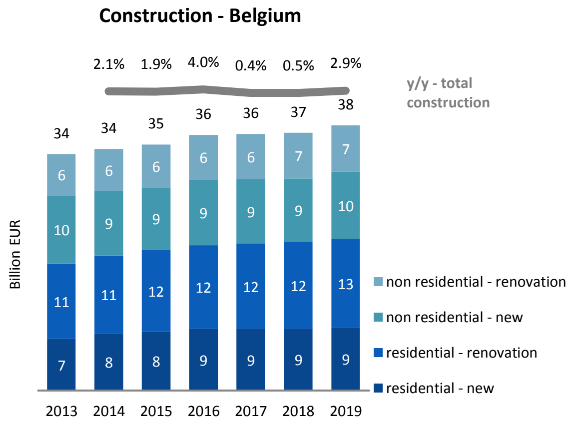
Drivers of construction markets – other countries

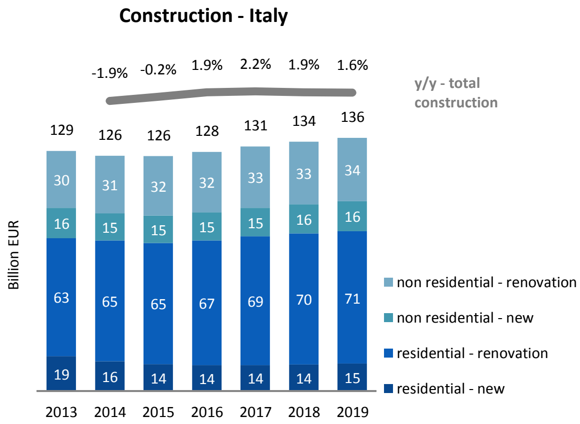
The construction market in France, Italy, the Netherlands and Belgium is driven more by residential building and especially renovation. The construction business in the UK almost has an even distribution among residential and non-residential buildings, though, similarly to Poland, new buildings play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

FIGURE 13: TOTAL CONSTRUCTION – OTHER COUNTRIES









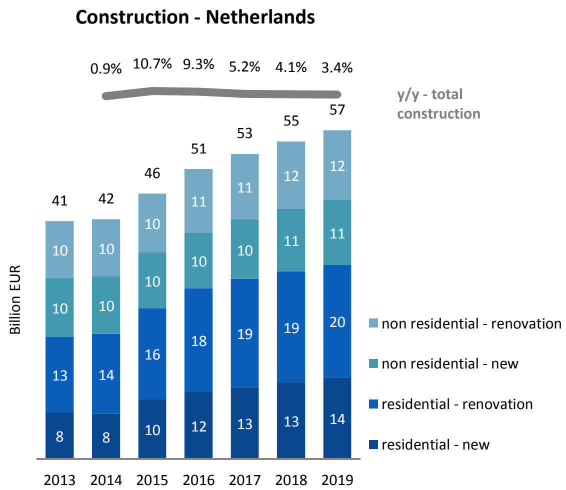
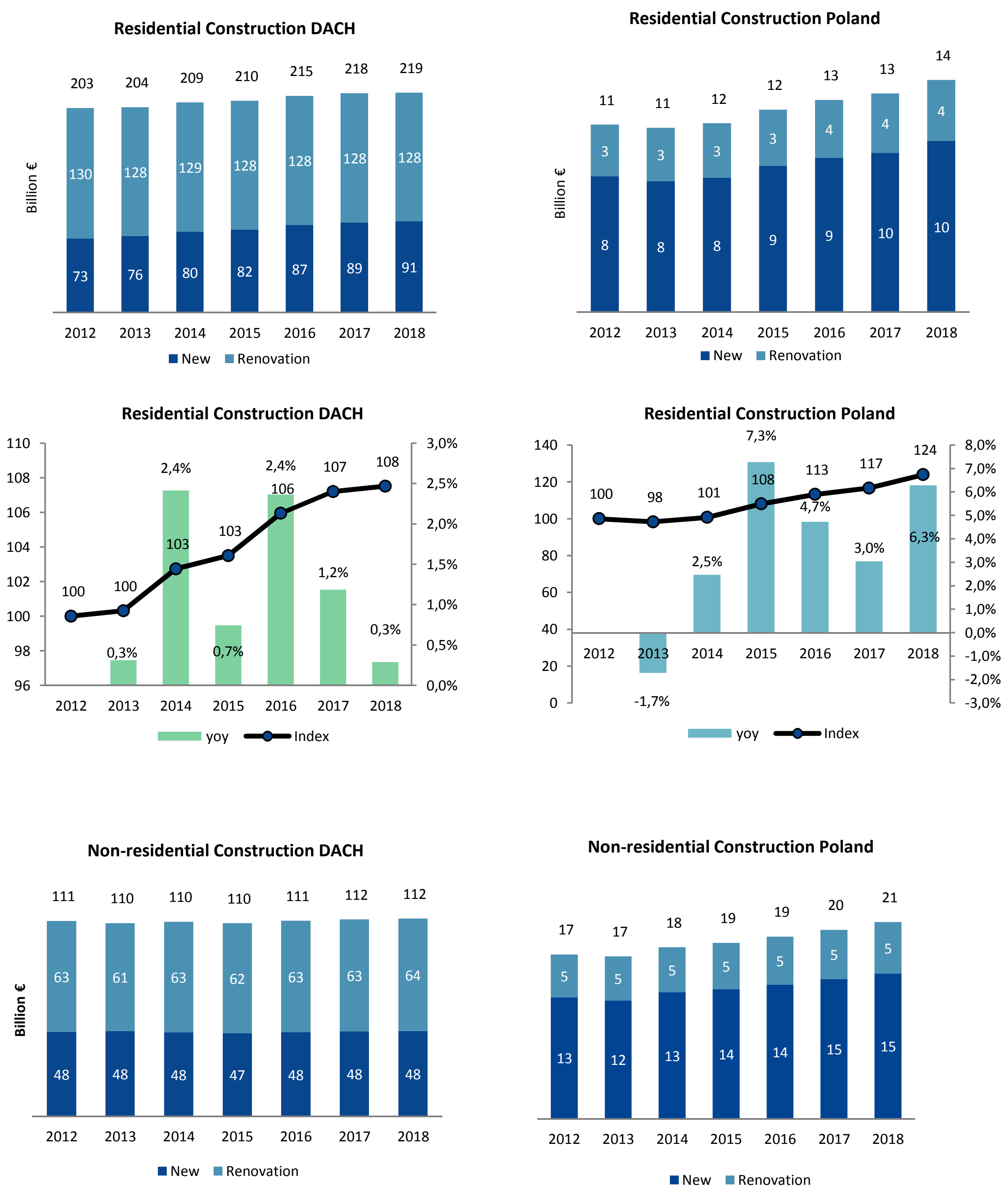


FIGURE 14: RESIDENTIAL AND NON-RESIDENTIAL CONSTRUCTION



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

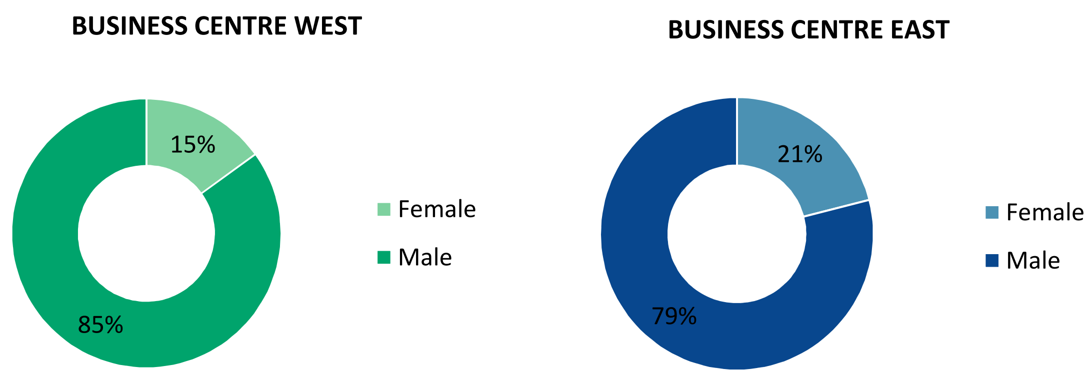
Human Resources Management

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

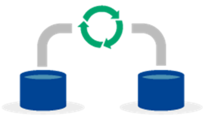
In 2017 the most important environmental activities were related to two new environmental legislation processes:

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)

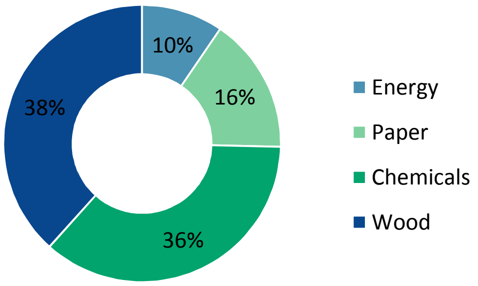
Using the overall Group's size and bargaining power, each area negotiates terms and conditions with suppliers based on the strategy prepared and realized in each pertinent group.

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.

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:

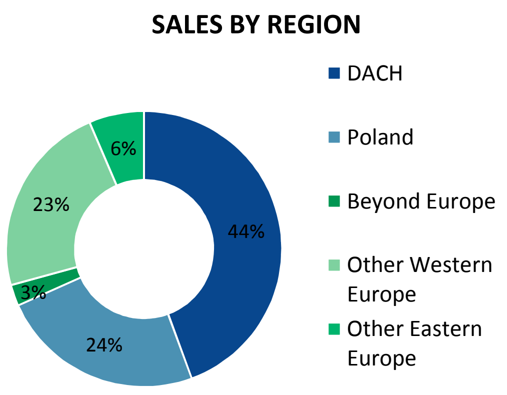
TABLE 10: REVENUE BY PRODUCT GROUP

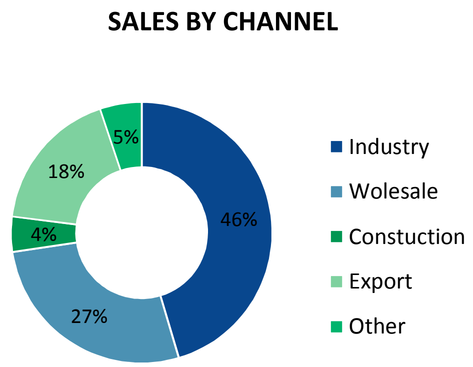
'000 EUR	2017	2016
Raw particleboard	183 503	160 446
Raw MDF/HDF	101 374	91 405
Lacquered board	30 173	32 144
Melamine faced board	459 679	437 161
HPL	74 956	68 293
HPL elements	79 654	78 799
Others	60 642	54 241
Sale of products	**989 981**	**922 489**
Electricity	33 909	30 107
Scrap	5 964	3 333
Freight 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

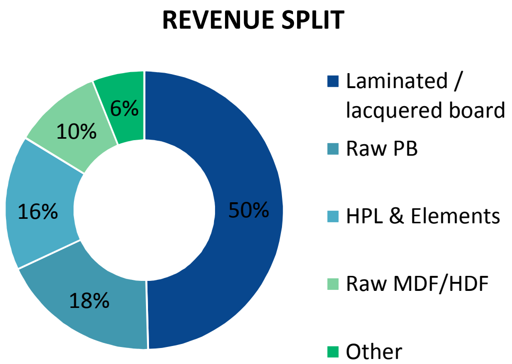
(1) Sales reductions include bonuses for customers, cash discounts and refunds.

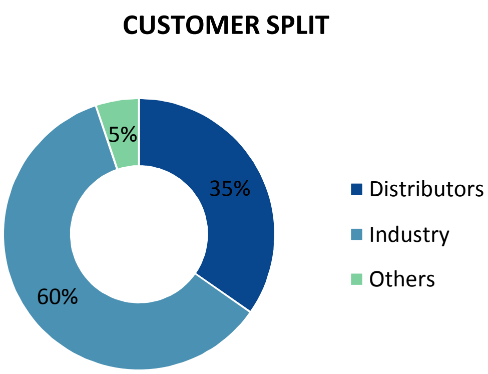
TABLE 11: SALES VOLUMES BY PRODUCT GROUP AT THE GROUP LEVEL

		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









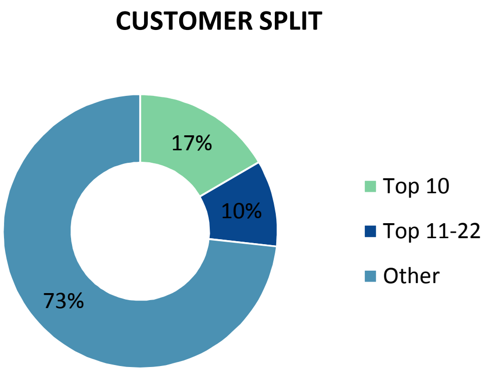


TABLE 12: REVENUE BY REGION AT THE PFLEIDERER GROUP S.A. LEVEL (STANDALONE)

'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").

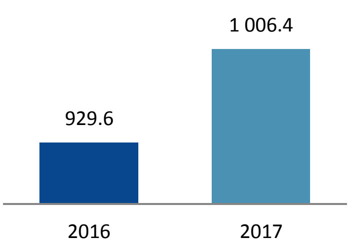
They were authorised for issue by the Group's Management Board on 10 April 2018.

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.

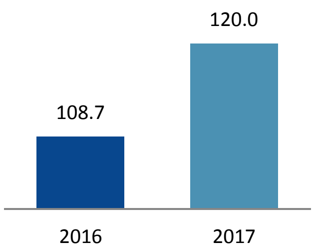
3.2. EXPLANATION OF THE ECONOMIC AND FINANCIAL DATA IN THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

3.2.1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

REVENUE (EUR M)



EBITDA (EUR M)



NET PROFIT (EUR M)

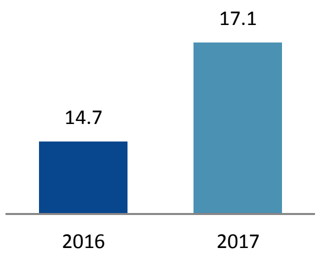


TABLE 15: CONSOLIDATED STATEMENT OF PROFIT OR LOSS

'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

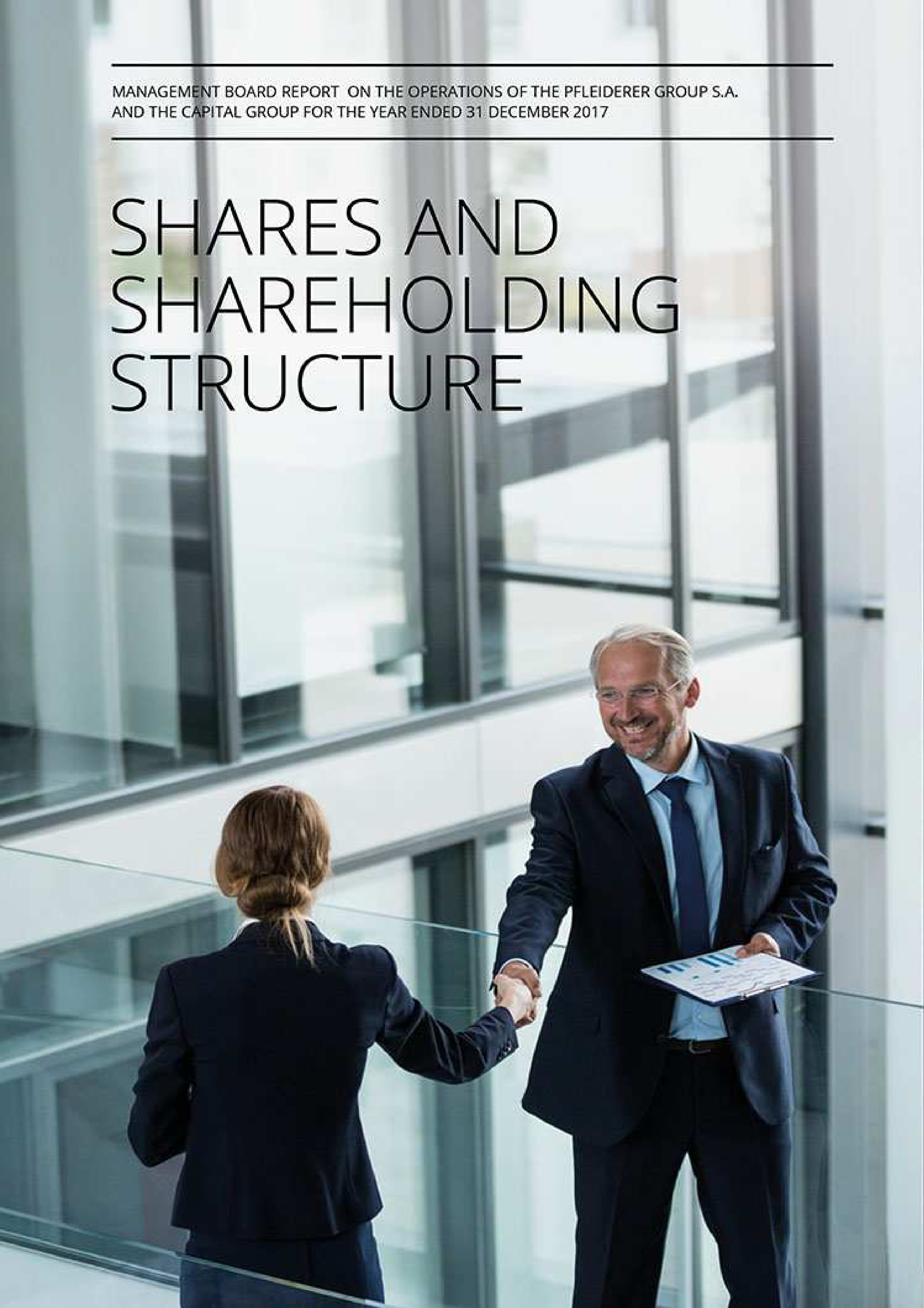
The Company is not exposed to any material price risk associated with financial instruments.

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.

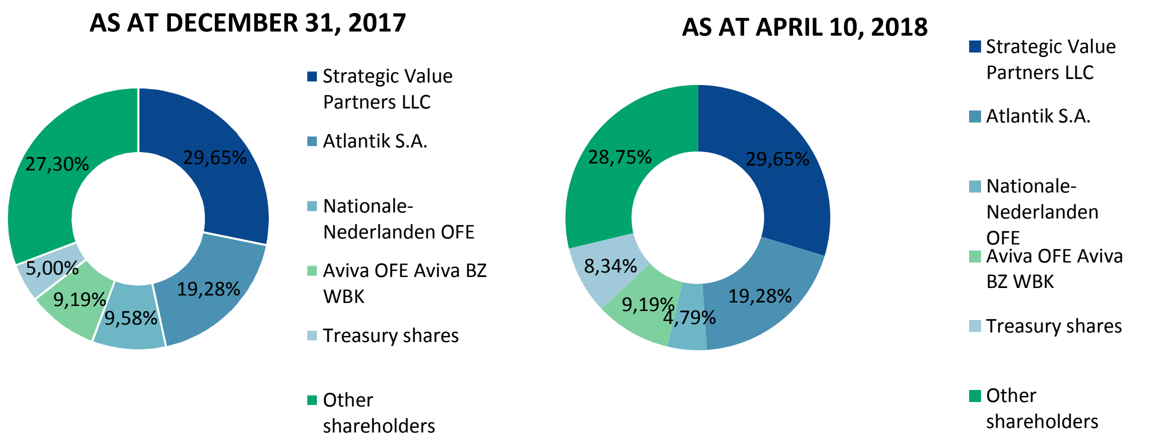
On 19 December 2017 Pfleiderer Group S.A. received from Stichting Lindenhaag ("Stichting"), a foundation incorporated under the laws of the Netherland, having its statutory seat in the municipality of Stichtse Vecht, the Netherlands, a notification on the indirect acquisition of the Company shares. Pursuant 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***)

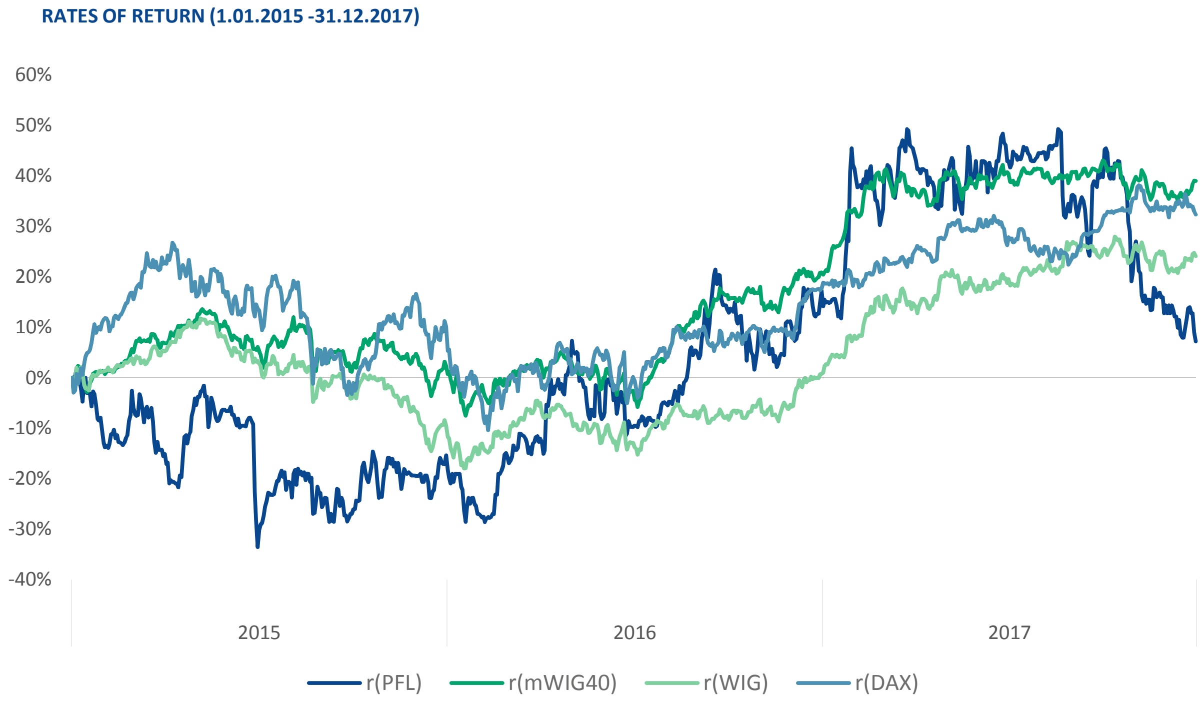
(***) share price two business days before the dividend record date

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

TABLE 34: PFLEIDERER GROUP ON THE WSE – COMPANY HIGHLIGHTS

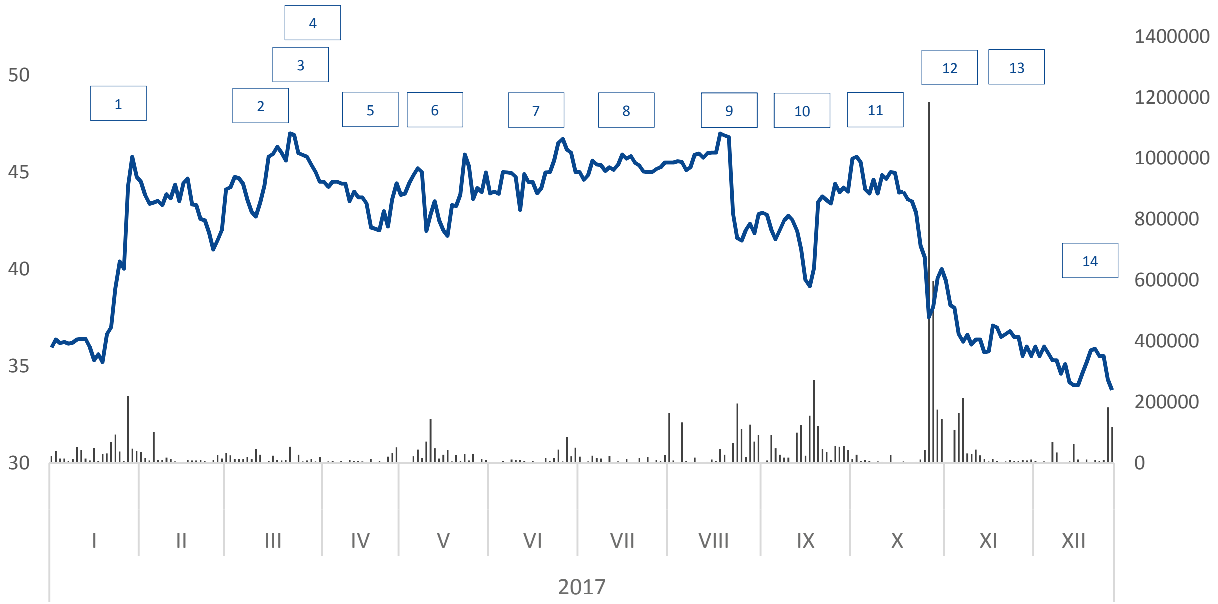
Company data	
Company name	Pfleiderer Group
Abbreviated name	PFLEIDER
Ticker	PFL
ISIN	PLZPW0000017
Bloomberg ticker	PFL PW
Listed since	6.05.1997
Number of outstanding shares	64 701 007
Free float	33.54%
Sector	Wood
Indices	mWIG40 (1.377%) WIG (0.329%) WIG-Poland (0.337%)

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")

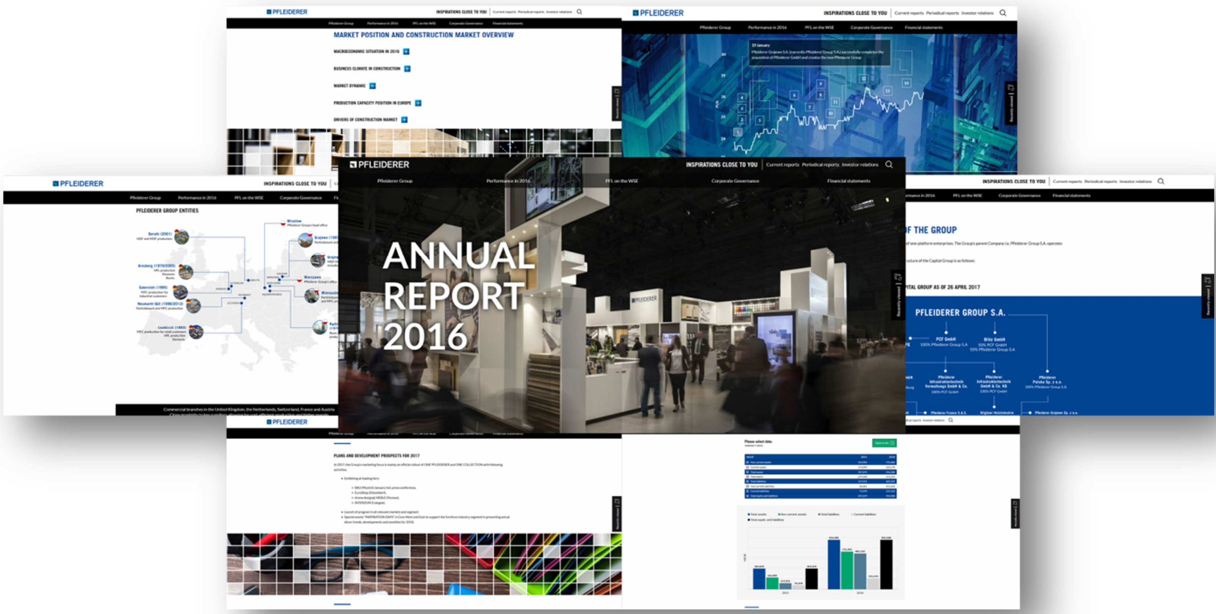
One year after its re-IPO and Group integration of the East and West business core, Pfleiderer Group won the prestigious ranking "Listed Company of the Year", in the category of: "Investor Relations", organised by the "Puls Biznesu" daily and TNS Polska.

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

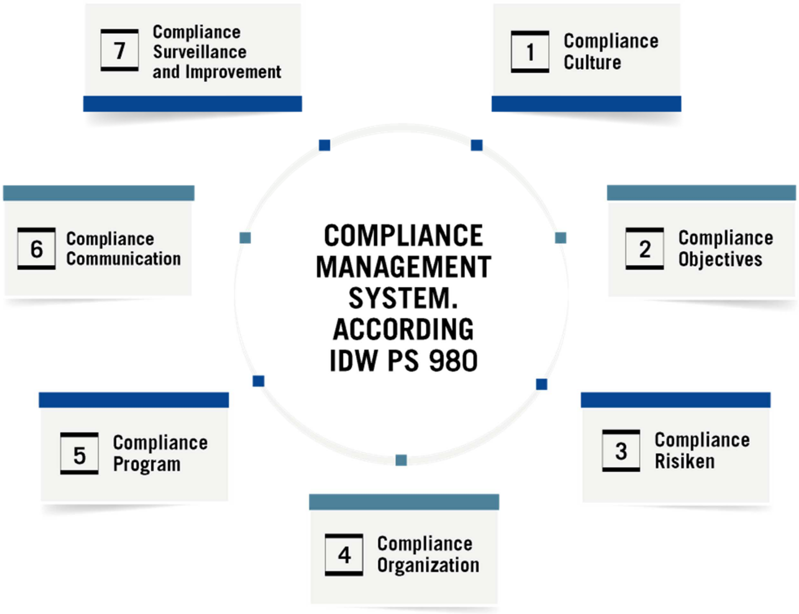
The internal control system is a process put into place by Pfleiderer's Management Board, management and other staff to provide a reasonable assurance that the standalone and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management, the internal 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

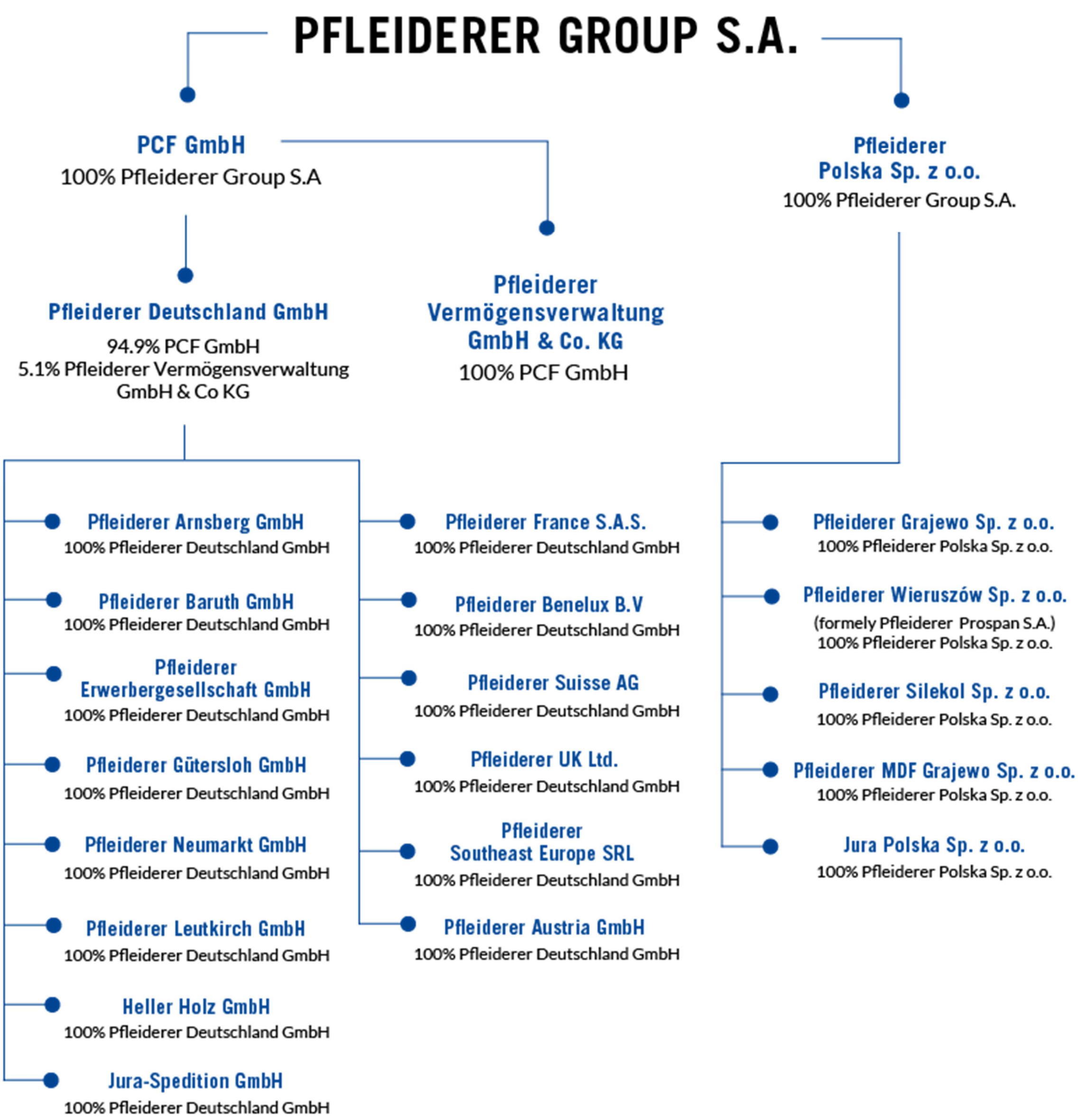


TABLE 47: LIST OF THE GROUP'S ENTITIES WITH THEIR ACTIVITIES (AT THE TIME OF THE REPORT'S PUBLICATION)

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

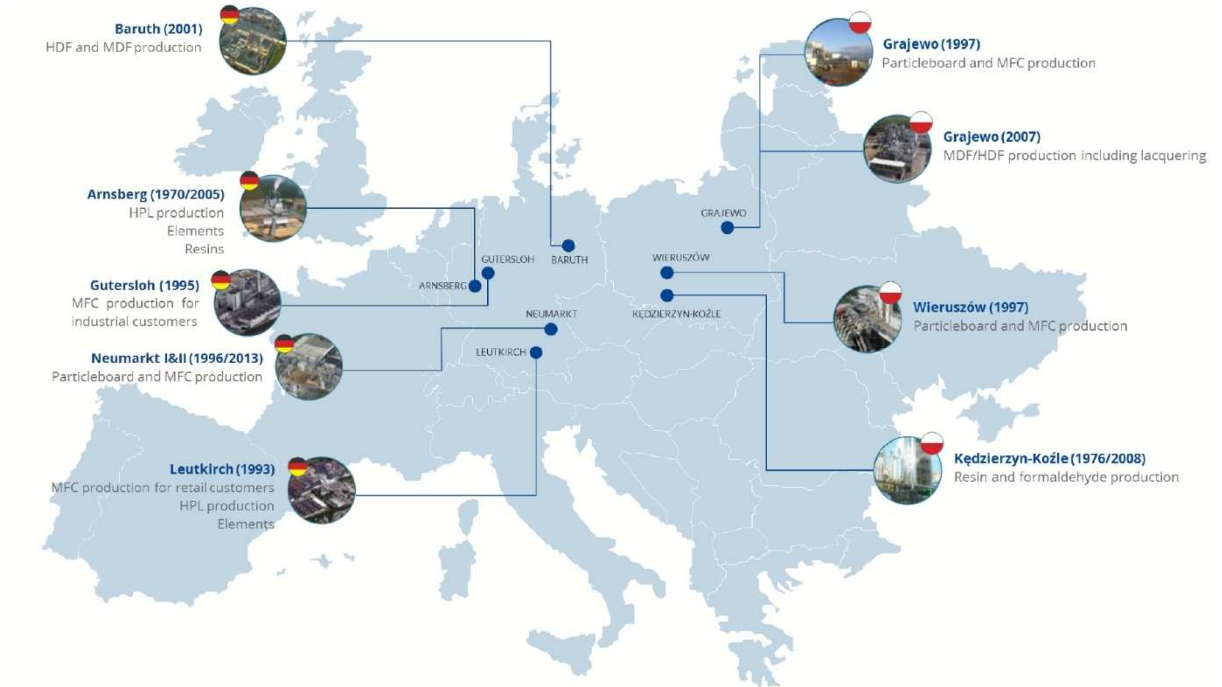


TABLE 48: SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2017

	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
	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
PRODUCTS					
% 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	✓	✓	✓	✓	
MAIN APPLICATIONS: CONSTRUCTION	✓	✓	✓	✓	
MAIN APPLICATIONS: SHOP FITTING	✓	✓	×	×	
MAIN APPLICATIONS: 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.

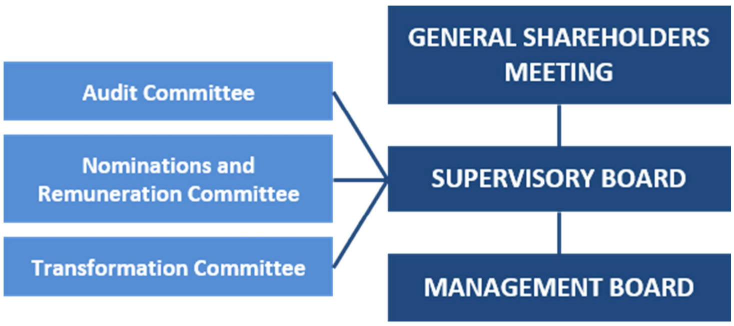
The production plants in Poland deliver a significant portion of supplies with the use of customers' means of transport. Customers tend to order large quantities as part of a single delivery, whereby the lorries use their full load capacity. In Germany, most products are delivered to customers by the 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.

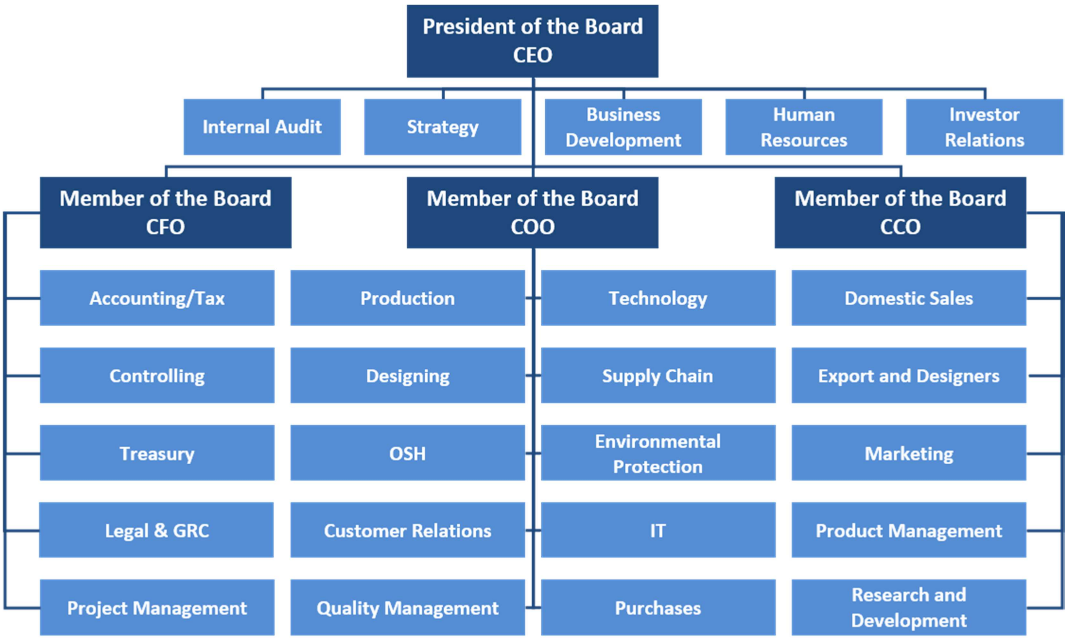
TABLE 50: THE SUPERVISORY BOARD'S STANDING COMMITTEES, THEIR TASKS AND RESPONSIBILITY

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:

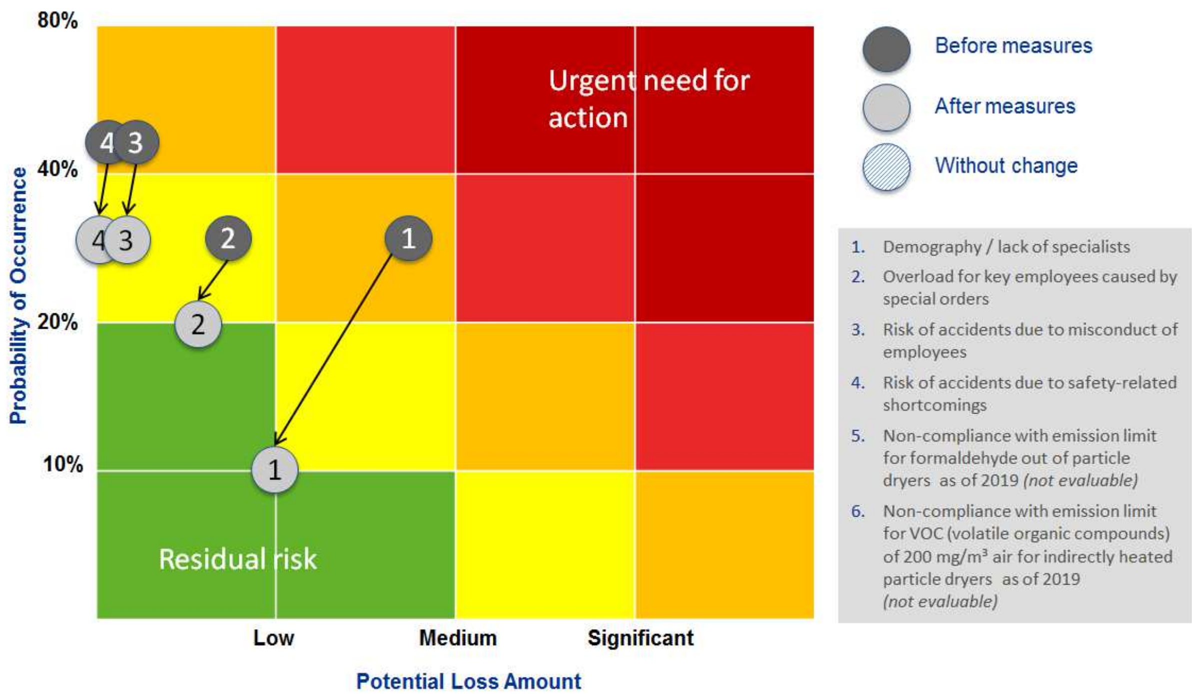
- Ensuring the company's future success
- Ensuring that the company's goals are met
- Enhancing goodwill in the long-term
- Optimising risk costs
- Identifying risks that may put resources in jeopardy

- 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

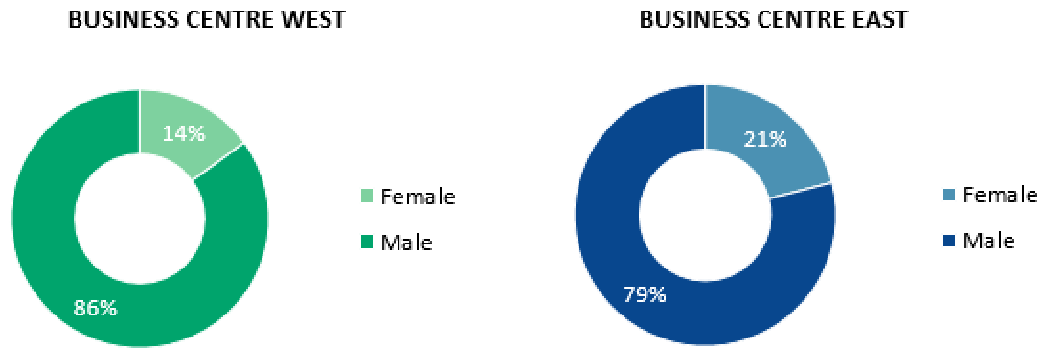


TABLE 53: GENDER/AGE STRUCTURE OF THE WORKFORCE IN PFLEIDERER GROUP

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

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