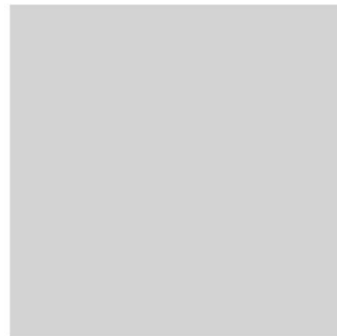
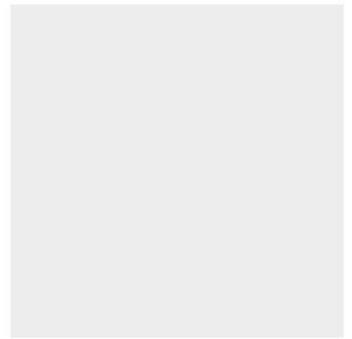
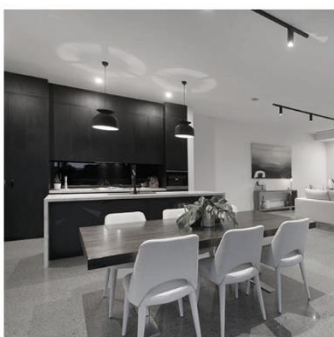
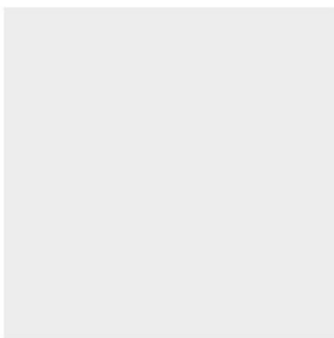


 **PFLEIDERER**



PFLEIDERER GROUP S.A.



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

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STATEMENT OF THE MANAGEMENT BOARD

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

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

Tom K. Schäbinger
President of the Management Board

Nico Reiner
*Member of the Management Board, Chief
Financial Officer*

Wrocław, 24 April 2019

STANDALONE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

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

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

STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

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

STATEMENT OF CHANGES IN EQUITY

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

Notes are an integral part of these annual separate financial statements

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

Notes are an integral part of these annual separate financial statements

CASH FLOW STATEMENT

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

Notes are an integral part of these annual separate financial statements

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1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

2. THE COMPANY'S LINE OF BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

a) Compliance statement

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

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

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

- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014 -2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

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

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

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

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

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

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

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

IFRS 16 “Leases”

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other standards

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

b) Adoption of new and revised standards

IFRS 9 “Financial instruments”

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

c) Basis of accounting

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

d) Going concern

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

e) Functional and presentation currency

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

f) Judgments and estimates

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

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

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

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

Determination of fair values

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

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

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

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

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

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

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

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

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

6. SIGNIFICANT ACCOUNTING PRINCIPLES

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

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

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

a) Transactions in foreign currencies

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

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

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

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

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

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

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

b) Classification and measurement of financial instruments

(i) Financial instruments other than derivatives

ACCOUNTING POLICY APPLIED FROM 1 JANUARY 2018

Classification of financial assets

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

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

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

Initial recognition and derecognition of financial assets

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

Initial measurement

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

Classification of financial liabilities

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

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

Measurement

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

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

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

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

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

ACCOUNTING POLICY APPLIED TILL 31 DECEMBER 2017

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

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

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

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

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

Loans advanced and receivables

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

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

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

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

Financial assets available for sale

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

Financial liabilities at amortized cost

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

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

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

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

(ii) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

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

c) Investments in subsidiaries

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

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

d) Investments in jointly controlled entities

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

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

e) Property, plant and equipment

(i) Owned property, plant and equipment

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

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

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

(ii) Reclassification to investment property

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

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

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

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

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

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

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

(iv) Subsequent expenditures

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

(v) Depreciation

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

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

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

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

f) Intangible assets

(i) Other intangible assets

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

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

Licences	2-3 years
Computer software	2 years

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

g) Inventories

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

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

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

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

h) Impairment losses

(i) Non-derivative financial assets

ACCOUNTING POLICY APPLIED FROM 1 JANUARY 2018

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

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

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

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

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

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

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

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

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

Level 1 – balances for which credit risk has not increased significantly since initial recognition and for which expected credit losses are assessed based on the probability of default within 12 months,

Level 2 – balances for which credit risk has increased significantly since initial recognition, but there is no objective evidence for impairment; expected credit losses are determined based on the probability of default for the entire contractual life of the financial asset,

Level 3 – balances with an objective indication of impairment.

Trade receivables are classified to Level 2 or Level 3.

ACCOUNTING POLICY APPLIED TILL 31 DECEMBER 2017

The previously applied rules for impairment of financial assets required from the Company at the end of each reporting period to assess whether any indication of impairment occurred for financial assets other than measured at fair value through profit and loss.

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

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

All material financial asset are tested for impairment as at each reporting date. Other financial assets are divided into groups with similar credit risk and assessed for impairment collectively.

Impairment losses are recognised in profit or loss for the period.

If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an assets or cash-generating units (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If an asset does not generate cash flows that are largely independent of those from other assets, value in use is estimated for smallest identifiable group of assets that generates cash flows.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment loss in respect of goodwill is not reversed. For other assets, at the end of each reporting period impairment losses recognised in prior periods are reviewed to determine if there is any evidence that they no longer exist or have

decreased. An impairment loss recognised in prior periods is reversed if the estimates used to determine the asset's recoverable amount have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Equity

(i) Ordinary shares

Ordinary shares are disclosed under equity. Incremental costs directly attributable to the issue of ordinary shares or stock options, net of any tax effects, are recognised as a deduction from equity.

(ii) Dividends

Dividends are recognised as liabilities in the period in which the dividend resolution was adopted.

j) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised in the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plan

The Company shall collect and contribute employee retirement benefit premiums under the applicable laws. Contributions paid by both the Company and by an employee are done in accordance with the government program and represent a defined contribution plan. Accordingly, the Company's liabilities for each period are recognised on the basis of the amounts of contributions to be paid for the period.

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

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

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

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

k) Provisions

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

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

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

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

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

l) Revenue

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

ACCOUNTING POLICY APPLIED FROM 1 JANUARY 2018

The Group recognizes revenue using a 5-stage revenue recognition model:

Stage 1: Identifying the contract;

Stage 2: Identifying performance obligations included in the contract;

Stage 3: Determining the transaction price;

Stage 4: Allocating the transaction price to performance obligations;

Stage 5: Recognition of revenue when performance obligations included in the contract are satisfied.

In accordance with IFRS 15 the Group recognises revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either a good or service that is distinct. For each performance obligation an entity shall determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

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

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party's rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;

- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

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

ACCOUNTING POLICY APPLIED TILL 31 DECEMBER 2017

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

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

As a result of a transfer of Operational contribution of Operational Activity to Pfleiderer Grajewo Sp. z o.o., the Company has been operating only as a holding company since 1 September 2016.

m) Operating lease payments

Payments under operating lease agreements are recognised in profit or loss of the current period on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

n) Finance lease payments

Minimum lease payments made under finance leases are apportioned between finance costs and reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

o) Net finance income and costs

Financial income includes interest income on funds invested by the Company, income from dividends, gains on hedge instruments recognised in profit or loss, foreign currency gains (excluding gains from foreign currency differences classified to other operating income) and net gains previously recognised in other comprehensive income. Interest income is recognised in profit or loss of the current period on an accrual basis using the effective interest rate method.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and deferred payment, losses on hedging instruments recognized in profit or loss, foreign currency losses (excluding losses from foreign currency differences classified to other operating losses), and impairment losses recognised on financial assets (other than trade receivables), reclassification of net losses previously recognised in other comprehensive income. Interest expense that is not directly attributable to the acquisition, construction or production of a qualifying asset is recognised in profit or loss of the current period using the effective interest rate method.

Foreign currency gains and losses are presented on a net basis or as financial income and costs or in other operating income, if the gains or losses arise in the operating activity (under trade receivables, trade liabilities, cash and the purchase and sale of fixed assets).

p) Income tax expense

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

Current tax is calculated based on the taxable profit for a given financial year determined in accordance with the relevant tax regulations. Current income tax is calculated in accordance with the applicable tax regulations based on taxable profit and is recognised as a payable in the amount which has not been paid or receivable if the amount of the current income tax paid exceeds the amount due. It is measured using tax rates enacted or substantively enacted at the reporting date, and including any tax adjustments from previous years.

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

Deferred tax assets and deferred tax liabilities may be offset if the Company has a legally enforceable title to set off the recognised amounts and if both the assets and liabilities relate to income tax levied by the same tax authority on the same taxpayer or different taxpayers who intend to settle income tax liabilities and receivables or simultaneously realise the receivables and settle the liabilities.

Deferred tax asset is not recognised for:

- temporary differences on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that they will not reverse in the foreseeable future;
- taxable temporary differences arising on initial recognition of goodwill (only deferred tax liability).

Deferred tax assets are recognised in relation to all deductible temporary differences as well as unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are calculated using tax rates that are expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

q) Earnings per share

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

7. OTHER OPERATING INCOME

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit on sale of non-current assets to unrelated parties	-	2
Other operating income	8,284	10,462
Total	8,284	10,464

Other operating income of PLN 8,284 thousand (PLN 10,462 thousand in 2017) include mainly revenues from services provided to Group companies (services provided by the Company's Management Board, legal, personnel, financial controlling and group accounting services).

8. OTHER OPERATING EXPENSES

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Recognition of accruals	-	(1,724)
Operating foreign exchanges losses	(1,007)	(330)
Costs of a penalty imposed by OCCP	-	(15,958)
Other operating expenses	(76)	(1,201)
Total	(1,083)	(19,213)

In 2017, other operating expenses of PLN 1,201 thousand included mainly Group reorganization costs under the implemented "One Pfeleiderer" project of PLN 1,033 thousand. In 2017, the costs of the establishment of other provisions in the amount of PLN 1,724 thousand are in their entirety the costs of the establishment of the provisions for the legal costs of the antitrust appeal proceedings.

9. OPERATING EXPENSES BY NATURE

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Materials and energy	(123)	(174)
Depreciation and amortisation	(23)	(35)
External services	(4,715)	(6,028)
Taxes and charges	(334)	(130)
Employee benefits expenses	(13,350)	(11,985)
Other expenses by kind	(4,131)	(4,345)
Total costs	(22,676)	(22,697)
Total operating expenses	(22,676)	(22,697)
including:		
Administrative expenses	(22,676)	(22,697)

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

- other operating expenses recognized for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 1,054 thousand have been decreased by PLN 342 thousand and presented in these financial statements in the amount of PLN 19,213 thousand,
- general and administrative expenses recognized for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 22,355 thousand have been increased by PLN 342 thousand and presented in these financial statements in the amount of PLN 22,697 thousand.

10. EMPLOYEE BENEFITS EXPENSES

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Salaries and wages	(8,014)	(12,626)
Employee benefits	(513)	(837)
Change in retirement benefit obligations	(14)	(24)
Change in liabilities other employee liabilities	(546)	-
Change in unused holiday accrual	24	(80)
Change in liabilities associated with bonus payment	(1,946)	1,794
Long-term incentive program	(2,290)	(190)
Other employee benefits	(51)	(22)
Total	(13,350)	(11,985)

In 2017, the Company commenced a program of payment in the form of shares for selected members of the Management Board and Supervisory Board (“Managers”). The Program provides for the possibility to purchase Pfleiderer Group S.A.’s shares if the assumed goals have been achieved (a detailed description of the program terms and conditions is provided in Note 29). The Program has been classified as equity-settled instrument in the standalone financial statements.

Under this Program, members of the Management Board and Supervisory Board are granted the right to purchase the Company’s shares on condition that they meet the terms and conditions provided for in an agreement. The price at which the Managers may purchase the shares (“the option exercise price”) was set at PLN 30 per share for Supervisory Board members and PLN 40 for Management Board members (a detailed description of the program terms and conditions is provided in Note 29).

The fair value of the option was calculated with the use of the Monte-Carlo model. The adopted share price was PLN 39.45 based on the market price of a share of 15 September 2017, the expected volatility was adopted at the level of 33% - it is a volatility level according to Bloomberg estimated for the call option (with a 5-year term if the option has an intrinsic value) of Pfleiderer’s shares as of the valuation date.

The option fair value in the Program as at the reporting date was PLN 6,185 thousand. In the year ended on 31 December 2018, the Company recognised the cost of the Program in the amount of PLN 2,290 thousand (PLN 190 thousand in 2017).

11. FINANCIAL INCOME AND EXPENSES

Disclosed in profit or loss for the period:

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Interest income	3,298	5,217
Net foreign exchange gains from financing activities	-	49,472
Dividend income	202,837	413,318
Other financial income	6,834	56,379
Financial income	212,969	524,386
Interest expense	(30,974)	(23,268)
Net foreign currency losses from financing activities	(20,619)	-
Other finance costs	(5,317)	(50,336)
Finance costs	(56,910)	(73,604)
Costs / Net financing income	156,059	450,782

In 2018, interest income of PLN 3,298 thousand includes mainly interest on the loans granted to Pfleiderer Grajewo MDF Sp. z o.o. (PLN 5,217 thousand in 2017).

The Company recognised the following in the dividend income in 2018:

- PLN 66,616 thousand – pursuant to a resolution of 22 June 2018 of the Ordinary General Meeting of Shareholders of Pfleiderer Polska Sp. z o.o. on the distribution of profit for 2017. A receivable of PLN 66,616 thousand was received on 10 July 2018, and this amount is a difference between the amount of the dividend allocated to Pfleiderer Group S.A. as a result of the distribution of profit of 2017 in the amount of PLN 108,088 thousand and the amount of the interim dividend of PLN 41,472 thousand, as declared under a resolution of 30 December 2017, and received on 10 February 2018.
- PLN 7,355 thousand (EUR 1,719 thousand) - under a resolution of 25 July 2018 of the Company's General Assembly and the Management Board of the subsidiary PCF GmbH on dividend payout for 2017. A receivable of EUR 1,719 thousand under an offsetting agreement of 31 July 2018 was set off against a liability in respect of a loan granted by a subsidiary PCF GmbH. The amount of the offset receivable is a difference between the amount of the dividend allocated to Pfleiderer Group S.A. as a result of the distribution of profit of 2017 in the amount of EUR 10,719 thousand and the amount of the interim dividend of EUR 9,000 thousand, as declared under a resolution of 28 December 2017, which was set off on 31 December 2018 under an offsetting agreement.
- PLN 21,600 thousand – pursuant to a resolution of 30 December 2018 of the Ordinary General Meeting of Shareholders of Pfleiderer Polska Sp. z o.o. on the distribution of an interim dividend for 2018. The Company received the receivable in respect of the dividend on 28 March 2019.
- PLN 107,266 thousand (EUR 24,946 thousand) - under a resolution of 31 December 2018 of the Company's General Assembly and the Management Board of the subsidiary PCF GmbH on interim dividend payout for 2018. Under the offsetting agreement of 31 December 2018, the receivable in respect of the dividend was set off on 31 December 2018 against a liability in respect of a loan granted by PCF GmbH for the buyback of treasury shares of 25 September 2017.

In 2018, other financial income of PLN 6,834 thousand includes: compensation for intercompany sureties granted in the amount of PLN 4,690 thousand and revenues from transferring a justified part of the current refinancing costs to subsidiaries as well as adaptation of the key of cost allocation between Group Companies in the amount of PLN 2,144 thousand.

In 2017, other financial income of PLN 56,379 thousand includes: revenues from transferring a justified part of refinancing costs to subsidiaries (PLN 42,413 thousand) as well as current costs of previous and current financing and income

on settlement of intercompany sureties granted mutually by Group Companies for the previous and current financing (PLN 7,030 thousand).

Interest expenses in 2018 in the amount PLN 30,974 thousand (PLN 23,268 thousand in 2017) include interest on euro denominated loans due to PCF GmbH (PLN 28,980 thousand) as well as interest on commercial papers issued in the form of zero-coupon bonds (PLN 1,988 thousand) taken up by the subsidiaries Pfleiderer Wieruszów Sp. z o.o. and Pfleiderer Polska Sp. z o.o.

Foreign currency losses in the amount of PLN 20,619 thousand refer to the valuation and partial repayment of the loans granted by the subsidiary PCF GmbH for the buyback of treasury shares as well as the liability to PCF GmbH taken over in 2016 from Atlantik S.A. (the details of loan repayment and partial repayment of the assumed liability are described in Note 21).

Other financial costs in 2017 in the amount of PLN 50,336 thousand include mainly the refinancing acquisition costs for the Pfleiderer Group.

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

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Interest income on financial assets	3,298	5,217
Interest expense on financial liabilities	(30,974)	(23,268)
	(27,676)	(18,051)

12. INCOME TAX EXPENSE

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Income tax expense		
Current portion of income tax	(139)	-
Deferred income tax		
Relating to recognition and reversal of temporary differences	3,997	(3,794)
Income tax expense recognised in profit or loss of the period	3,858	(3,794)

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

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit before tax	140,584	419,336
Profit before tax	140,584	419,336
Tax at domestic rate	19%	19%
	26,711	79,674
Non-tax-deductible expenses	3,970	3,137
Unrecognized deferred tax	4,020	71
Non-taxable income	(159)	(558)
Dividends	(38,539)	(78,530)
Adjustments of the current income tax from previous years	139	-
Effect on income tax	21.74%	18.10%
	(30,569)	(75,880)
Income tax at effective tax rate	2.74%	0.90%
	3,858	(3,794)
Income tax expense recognised in profit of the period	3,858	(3,794)

13. PROPERTY, PLANT AND EQUIPMENT

Gross value	Land, buildings	Plant and equipment	Other	Fixed assets under construction	Total
1 January 2017	429	119	264	-	812
Decreases			(108)		(108)
31 December 2017	429	119	156	-	704
1 January 2018	429	119	156	-	704
31 December 2018	429	119	156	-	704

Accumulated amortisation and impairment losses	Land, buildings	Plant and equipment	Other	Fixed assets under construction	Total
1 January 2017	112	89	258	-	459
Depreciation and amortisation	21	13	1		35
Decreases			(108)		(108)
31 December 2017	133	102	151	-	386
1 January 2018	133	102	151	-	386
Depreciation and amortisation	13	9	1		23
31 December 2018	146	111	152	-	409

Net value					
1 January 2017	317	30	6	-	353
31 December 2017	296	17	5	-	318
1 January 2018	296	17	5	-	318
31 December 2018	283	8	4	-	295

Impairment of non-financial non-current assets

The Management Board did not identify any impairment indicators for its non-financial non-current assets as at 31 December 2018. No such indicators were found in the analysis. All property, plant and equipment items secure the loans and borrowings.

14. INTANGIBLE ASSETS

As at 31 December 2018, the Company has intangible assets in particular licenses and software, with a gross value of PLN 4,817 thousand. These intangible assets as at 31 December 2018 are fully depreciated. No impairment losses on intangible assets were recognised in the reporting period and in the comparative period. As at the reporting date, intangible assets were not used as security for bank loans and other borrowings.

15. INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries comprise:

	31 December 2018	31 December 2017 restated (*)
Long term investments:		
Interests in subsidiaries	2,133,128	2,133,125
Non-current loans advanced to subsidiaries	-	108,213
Short term investments:		
Current loans advanced to subsidiaries	29,465	-
	2,162,590	2,241,338

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

15.1. Interests in subsidiaries

The Company's interests in subsidiaries comprise:

	Country	Value of shares at acquisition cost	Ownership interest	Country	Value of shares at acquisition cost	Ownership interest
	31 December 2018			31 December 2017 restated (*)		
Pfleiderer Polska Sp. z.o.o.	Poland	932,310	100%	Poland	932,310	100%
PCF GmbH	Germany	1,200,815	100%	Germany	1,200,815	100%
		2,133,125			2,133,125	

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

The increase in the value of shares in the subsidiary PCF GmbH as at 31 December 2018 is the result of the recognition of a correction note regarding a material error of the financial statements for the financial year 2016, which represents an increase in the initial purchase price of a subsidiary that included the cost of German acquisition tax property.

On the basis of information received from the German tax authorities and external analysis commissioned by the Company, the Management Board decided to increase the tax liability due to the transfer of ownership from the amount of PLN 22,245 thousand up to PLN 45,595 thousand. The Management Board predicts that payment for this liability will be made during 2019. Detailed information is included in note 31 of this report.

Value of shares in jointly controlled entities presented in other non-current financial assets:

	Country	Value of shares at acquisition cost	Direct ownership interest	Country	Value of shares at acquisition cost	Direct ownership interest
	31 December 2018			31 December 2017		
Blitz 11-446 GmbH *	Germany	65	50%	Germany	65	50%
		65			65	

* PCF GmbH owns 50% direct interest in Blitz 11-446 GmbH, therefore Pfleiderer Group S.A. owns 100% share in the entity indirectly

15.2. Loans advanced to subsidiaries

The Company advanced the following loans to subsidiaries:

	31 December 2018	31 December 2017
Loan to Pfleiderer MDF Grajewo Sp. z o.o.	29,465	108,213
	29,465	108,213

On 29 June 2018, Pfleiderer MDF Grajewo Sp. z o.o. transferred PLN 82,000 thousand to the Pfleiderer Group S.A. as repayment of the loan advanced to it. In the period from 1 January 2018 do 31 December 2018, the Company charged loan interest in the amount of PLN 3,251 thousand.

On 28 February 2019, the Company received cash in the amount of PLN 29,658 thousand from Pfleiderer MDF Grajewo Sp. z o.o. in respect of repayment of the loan in the amount of PLN 29,465 thousand and repayment of interest accrued after the reporting period until the loan repayment date in the amount of PLN 193 thousand.

15.3. Impairment of investments in subsidiaries

The Management Board performed impairment test for investments in subsidiaries as at 31 December 2018.

The recoverable amount of investments in subsidiaries PCF GmbH and Pfleiderer Polska Sp. z o.o. was determined based on their value in use. The calculation was performed based on cash flow projections related to the continued holding of investments in subsidiaries, adopted in budgets for the years until 2023 approved by the Management Board. Cash flows beyond the five-year period are extrapolated at a growth rate of 2% using the Gordon Growth Model. The growth rate does not exceed the long-term average growth rate for the manufacturing sector in Poland. The calculation also takes into consideration the current debt of individual investments under analysis, as well as the Company's percentage share in subsidiaries' equity.

The key assumptions used to calculate the value in use as at 31 December 2018 were as follows:

- growth rate beyond the five-year period covered by the budget – 2%;
- risk-free rate – 2.81%
- market risk premium – 6.0%
- discount rates – 8.7%;
- the percentage share in subsidiaries' equity reflects the current structure of the Capital Group Pfleiderer Group S.A.

The values assigned to the key assumptions represent Management Board's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources. The test did not reveal any impairment of investments in subsidiaries as at 31 December 2018.

15.4. Key financial data of subsidiaries:

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/(loss)
1 January 2018 – 31 December 2018					
PCF GmbH – data in thousands PLN	2,786,856	2,018,368	768,487	36,149	109,984
Pfleiderer Polska Sp. z o.o. – data in thousands PLN	1,928,469	219,996	1,708,473	1,477,177	43,991
	4,715,325	2,238,364	2,476,960	1,513,326	153,975

Period	Assets	Liabilities and provisions for liabilities	Equity	Revenue	Profit/(loss)
1 January 2017 – 31 December 2017					
PCF GmbH – data in thousands PLN	2,358,761	1,609,638	749,123	32,215	45,637
Pfleiderer Polska Sp. z o.o. – data in thousands PLN	2,079,420	326,008	1,753,412	1,395,829	108,087
	4,438,181	1,935,646	2,502,535	1,428,044	153,724

16. OTHER NON-CURRENT FINANCIAL ASSETS

	31 December 2018	31 December 2017
Other non-current financial assets		
Available-for-sale financial assets	75	75
-shares in companies not listed on a regulated security market	75	75
	75	75

17. DEFERRED INCOME TAX ASSET AND LIABILITY

Deferred tax asset and liability arise from the following items of the statements of financial position:

	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
	31 December 2018	31 December 2018	31 December 2018	31 December 2017	31 December 2017	31 December 2017
Non-current assets						
Property, plant and equipment	-	-	-	1	-	1
Non-current loans advanced	-	-	-	-	83	(83)
Current assets						
Trade and other receivables	-	55	(55)	-	-	-
Other current financial assets	-	19	(19)	-	-	-
Non-current liabilities						
Employee benefit liabilities	24	-	24	24	-	24
Current liabilities						
Loans and borrowings	3,062	3,461	(399)	2,686	7,246	(4,560)
Liabilities to related parties under debt securities	15	-	15	11	-	11
Trade and other payables	227	-	227	463	18	445
Employee benefit liabilities	646	-	646	169	-	169
Deferred tax asset/liability	3,974	3,535	439	3,354	7,347	(3,993)
Deferred tax assets and liabilities offset/Recognition of deferred tax assets up to the amount of deferred tax liability	(3,974)	(3,535)		(3,354)	(3,354)	
Deferred tax liability recognized in the statement of financial position	-	-		-	3,993	

PFLEIDERER GROUP S.A.**Notes to the annual standalone financial statements
for the financial year ended 31 December 2018**

(all amounts in PLN thousand)



Changes in temporary differences during the reporting period:

For the period 1 January 2018 – 31 December 2018

For the period 1 January 2018 – 31 December 2018	1 January 2018	Change in temporary differences recognized in profit or loss for the period	Recognized in equity	31 December 2018
Non-current assets				
Property, plant and equipment	1	(1)	-	-
Non-current loans advanced	(83)	83	-	-
Current assets				
Trade and other receivables	-	(55)	-	(55)
Other current financial assets	-	(19)	-	(19)
Non-current liabilities				
Employee benefit liabilities	24	4	(4)	24
Current liabilities				
Loans and borrowings	(4,549)	4,150	-	(399)
Liabilities to related parties under debt securities	-	15	-	15
Trade and other payables	445	(218)	-	227
Employee benefit liabilities	169	477	-	646
	(3,993)	4,436	(4)	439
Deferred tax asset recognized up to the amount of the deferred tax liability		(439)		
Deferred income tax related to the occurrence and reversal of temporary differences		3,997		

For the period 1 January 2017 – 31 December 2017

For the period 1 January 2017 – 31 December 2017	1 January 2017	Change in temporary differences recognized in profit or loss for the period	Recognized in equity	31 December 2017
Non-current assets				
Property, plant and equipment	3	(2)	-	1
Non-current loans advanced	(79)	(4)	-	(83)
Current assets				
Trade and other receivables	3	(3)	-	-
Non-current liabilities				
Employee benefit liabilities	33	6	(15)	24
Current liabilities				
Liabilities under loans, borrowings and other debt securities	(785)	(3,764)	-	(4,549)
Trade and other payables	119	326	-	445
Employee benefit liabilities	522	(353)	-	169
	(184)	(3,794)	(15)	(3,993)
Deferred income tax related to the occurrence and reversal of temporary differences		(3,794)		

Notes are an integral part of these annual separate financial statements

18. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables and advances from other parties	30	-
Trade receivables and advances from related parties	17,612	17,630
Dividend receivables from related parties	21,600	41,472
Current prepayments and accrued income	604	137
Current VAT receivables	584	200
Other receivables	112	138
Total	40,542	59,577

On 31 December 2018, trade and other receivables are the result of holding activity and are fully current. Trade receivables include mainly receivables from recharges of costs related to the execution of strategic projects for the benefit of Group companies (PLN 15,185 thousand) and receivables from annual settlement of services provided to Group companies (PLN 1,687 thousand, including services provided by the Company's Management Board and legal, personnel, financial controlling and group accounting services). As at 31 December 2017 trade receivables from related parties in the amount of PLN 17,630 thousand mainly include receivables from the annual settlement of services provided to group companies in the amount of PLN 12,697 thousand and receivables resulting from settlement of refinancing acquisition costs in the amount of PLN 4,346 thousand.

Trade and other receivables include the following financial receivables:

	31 December 2018	31 December 2017
Trade and dividend receivables	39,242	59,102
Other receivables	50	138
Total	39,292	59,240

19. EQUITY

	31 December 2018	31 December 2017
Par value of share capital in PLN	21,351,332	21,351,332
Number of ordinary shares	64,701,007	64,701,007
Par value per share (in PLN)	0.33	0.33

19.1. Share capital

The share capital is equity paid by shareholders and is stated at nominal value in accordance with the Company's articles of association and the entry in the Commercial Register.

The share capital consisted of 64,701,007 thousand ordinary shares with a nominal value of PLN 0.33 per share. As at 31 December 2018, all shares were paid up. Shareholders have the right to dividend and are entitled to the one vote per share at the General Meeting.

Shareholder structure

The shareholding structure as at the reporting date was as follows:

Shareholder structure as at 31 December 2018	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	19,183,149	29.65%	19,183,149	29.65%
Atlantik S.A.	12,474,561	19.28%	12,474,561	19.28%
Aviva OPF Aviva BZ WBK	6,241,000	9.65%	6,241,000	9.65%
Pfleiderer Group S.A.	12,940,201	20.00%	12,940,201	20.00%
Other shareholders	13,862,096	21.42%	13,862,096	21.42%
Total	64,701,007	100%	64,701,007	100%

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

In accordance with the notifications received from shareholders, the following transactions took place in 2018 involving shares of Pfleiderer Group S.A.:

On 15 February 2018, the Company received a notification from its shareholder Nationale Nederlanden OFE on the sale of the Company's shares as part of the share repurchase program announced by the Company. Following the settlement of the transaction, Nationale Nederlanden holds 3,102,115 shares in the Company, representing 4.79% of its share capital and entitling the holder to 3,102,115 votes at the Company's General Meeting of Shareholders, or 4.79% of the total number of votes at the General Meeting of Shareholders.

Announcement of a shares buyback program

Date of purchase	Number of purchased shares	Total price including costs
12 October 2017	3 235 050	152 701
7 February 2018	2 150 883	80 867
27 February 2018	11 000	413
24 August 2018	7 543 268	302 406
Total	12 940 201	536 387

On 12 October 2017, the Company bought back 3,235,050 treasury shares. The repurchase of the shares was based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 20 September 2017. Furthermore, the repurchase of the shares was made in connection with the share repurchase program approved by a resolution adopted by the General Meeting of Shareholders on 21 June 2017. The purchase price was PLN 47 per share. The total price of all the purchased shares was PLN 152,047,350. Costs of buying back treasury shares were PLN 654 thousand.

On 7 February 2018, the Company repurchased 2,150,883 shares with a par value of PLN 0.33 each. The purchase price for the treasury shares was PLN 37.50 per share. The total price for all of the purchased shares was PLN 80,658,112.50. Costs of buying back treasury shares were PLN 209 thousand.

On 27 February 2018, the Company repurchased 11,000 shares with a par value of PLN 0.33 each. The purchase price was PLN 37.50 per share. The total price for all of the purchased shares was PLN 412,500.

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

On 24 August 2018, the Company repurchased 7,543,268 treasury shares, representing approximately 11.66% of the share capital. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 4 August 2018. The purchase price was PLN 40 per share. The total price of all the purchased shares was PLN 301,730,720. The treasury shares were purchased in connection with the implementation of the treasury share repurchase program approved under the resolution no. 24 of the Company's Annual General Meeting of Shareholders dated 11 June 2018. The cost of repurchase of the treasury shares was PLN 675 thousand.

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

The total number of treasury shares bought back by the Company at the date of publication of this report is 12,940,201. The total par value of all repurchased shares is PLN 4,270,266.33, representing 20.00% of the Company's share capital. The purchased treasury shares entitle the holder thereof to a total of 20.00% of the votes at the general meeting of the Company, which represents 20.00% of the overall number of votes in the Company, provided that the Company does not exercise the voting rights attached to the treasury shares.

From the date of registration of share capital in 1994 to December 1996 the Company operated in a hyperinflationary environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires that each component of equity (except retained earnings and revaluation surplus) be restated by applying a general price index from the period of hyperinflation. Such retroactive restatement would cause share capital and statutory reserve funds to increase by a total amount of PLN 28,863 thousand and retained earnings to decrease by the same amount.

As at the date of publication of these financial statements, the shareholding structure was as follows:

Shareholder structure as at the publication date	Number of shares	Ownership interest	Number of votes at GM	% of votes at GM
Strategic Value Partners LLC	19,183,149	29.65%	19,183,149	29.65%
Atlantik S.A.	12,474,561	19.28%	12,474,561	19.28%
Aviva OPF Aviva BZ WBK	4,308,424	6.66%	4,308,424	6.66%
Pfleiderer Group S.A.	12,940,201	20.00%	12,940,201	20.00%
Other shareholders	15,794,672	24.41%	15,794,672	24.41%
Total	64,701,007	100.00%	64,701,007	100.00%

(*) According to information from the last General Meeting

19.2. Statutory reserves

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

In 2018, the Company transferred PLN 344,377 thousand from its net profit for the year ended 31 December 2017 to statutory reserve funds.

To finance the purchase of shares within the buyback program described above as well as in reference to the resolutions adopted by the General Meeting of Shareholders with regard to distribution of net profit for 2017, on 11 June 2018, the General Meeting of Shareholders resolved to establish reserves for the payment of the price for the shares bought by the Company within the program and covering the costs of the purchase. The following transfers were made to increase the reserves:

- PLN 164,072 thousand from the Company's statutory reserves (from the funds of this capital derived from profit) to the reserve capital established for the shares buyback program.

- PLN 189,464 thousand from the Company's statutory reserves (from the funds of this capital derived from profit) to the reserve capital established for the program.

19.3. Dividends

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

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

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

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

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

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

20. EARNINGS PER SHARE

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial year. The Company's net profit attributable to ordinary shares for the financial year ended 31 December 2018 amounted to PLN 144,442 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2017 was PLN 415,542 thousand.

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

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

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Number of shares at the beginning of the period	61,465,957	64,701,007
Buyback of shares on 12 October 2017	-	(3,235,050)
Buyback of shares on 7 February 2018	(2,150,883)	-
Buyback of shares on 27 February 2018	(11,000)	-
Buyback of shares on 24 August 2018	(7,543,268)	-
Number of shares at the end of the period	51,760,806	61,465,957
Weighted average number of shares as at 31 December	56,837,183	63,991,955

Basic and diluted earnings per share:

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Basic earnings per share as at 31 December	2.54	6.49
Diluted earnings per share as at 31 December	2.54	6.49

21. LOANS AND BORROWINGS

	31 December 2018	31 December 2017
Current liabilities		
Borrowings from related parties	456,459	108,935
Other financial liabilities	518,260	530,647
Total	974,719	639,582

Bank loans – senior facility agreement in effect from 1 August 2017

As part of its efforts aimed at optimizing the financing structure of the Pfleiderer Group, on 13 April 2017 Pfleiderer Group S.A., PCF GmbH and certain of its German and Polish subsidiaries, Credit Suisse International, Deutsche Bank AG, London Branch, Goldman Sachs Bank USA and others as mandated lead arrangers, Wilmington Trust (London) Limited and Trigon Dom Maklerski S.A. as security agents (“Security Agent”) and others entered into a EUR 450,000 thousand senior facilities agreement (hereinafter: “PRIME Agreement”), the initial utilization of which took place on 1 August 2017. Pfleiderer used the proceeds from these loans to repay secured senior bonds issued on 27 June 2014 (PCF GmbH) and to repay debt under the applicable loan agreements initially signed on 4 July 2014 and to finance general corporate purposes of the Group and its working capital needs.

The EUR 450,000 thousand is divided into Term Loan B (“TLB”) of EUR 350,000 thousand (PCF GmbH) with a tenor of seven years (fully drawn) and the Revolving Credit Facilities with a tenor of five years amounting to EUR 50,000 thousand (Revolving Facility 1) and PLN 211,480 thousand (Revolving Facility 2) available to companies Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and PCF GmbH, Pfleiderer Deutschland GmbH, whereas part of the Revolving Facility 1 in the amount of EUR 5,000 thousand and part of the Revolving Facility 2 in the amount of PLN 32,628 thousand is available only to Pfleiderer Polska Sp. z o.o. on the basis of ancillary agreements concluded on 30 October 2018 with BNP Paribas Bank Polska S.A.

On 31 July 2018, the PRIME Agreement was annexed and the amount of financing under TLB was increased to EUR 445,000, resulting in an increase in the total funding amount to EUR 545,000 thousand.

As at the reporting date, these Revolving Facilities were drawn in the amount of PLN 18,202 thousand in the form of an overdraft facility for Pfleiderer Grajewo Sp. z o.o., and bank guarantees were issued under Revolving Facility 2 for the total amount of PLN 6,265 thousand as well as letters of credit in the amount of EUR 797 thousand (PLN 3,428 thousand). Revolving Facility 1 is partially drawn in the form of bank guarantees of EUR 2,291 thousand and PLN 520 thousand (EUR 121 thousand) and letters of credit of EUR 5,040 thousand. Interest on account of cash withdrawals are accrued based on EURIBOR (for drawdowns in EUR) plus margin, WIBOR (for drawdowns in PLN) plus margin, LIBOR (for drawdowns in other currencies) plus margin.

PFLEIDERER GROUP S.A.**Notes to the annual standalone financial statements for the financial year ended 31 December 2018**

(all amounts in PLN thousand)



The repayment terms and schedules of bank loans as at 31 December 2018 were as follows:

Lender	Borrower	Currency	Interest rate	Date of repayment	Credit limit	31 December 2018		
						Amount drawn down in PLN	Amount available in PLN	
Credit facilities								
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	*) 88,307	18,202	70,105	
Alior Bank SA	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	78,852	-	78,852	
Alior Bank SA	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	EUR	EURIBOR 1M + margin	1 Aug 2022	***) 21,500	-	21,500	
Guarantees								
Bank Millennium S.A.	Pfleiderer Group S.A.	PLN		1 Aug 2022	9,693	9,693	-	
Limit on credit cards								
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN		1 Aug 2022	2,000	69	1,931	
						200,352	27,964	172,388

*) Drawn by Pfleiderer Grajewo Sp. z o.o.

**) Funding amount of EUR 5,000 thousand available as part of the Revolving Facility 1 for the entities Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o. and PCF GmbH, Pfleiderer Deutschland GmbH

PFLEIDERER GROUP S.A.

Notes to the annual standalone financial statements for the financial year ended 31 December 2018

(all amounts in PLN thousand)



The repayment terms and schedules of bank loans as at 31 December 2017 were as follows:

Lender	Borrower	Currency	Interest rate	Date of repayment	Credit limit	As at 31 December 2017	
						Amount drawn down in PLN	Amount available in PLN
Credit facilities							
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	79,072	-	79,072
Alior Bank SA	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	78,852	-	78,852
Raiffeisen Bank Polska S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN	WIBOR 1M + margin	1 Aug 2022	32,628	-	32,628
Guarantees							
Bank Millennium S.A.	Pfleiderer Group S.A.	PLN		1 Aug 2022	18,928	18,928	-
Limit on credit cards							
Bank Millennium S.A.	Pfleiderer Group S.A., Pfleiderer Polska Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Silekol Sp. z o.o.	PLN		1 Aug 2022	2,000	58	1,942
					211,480	18,986	192,494

Notes are an integral part of these annual separate financial statements

Loans from related parties

On 25 September 2017, PCF GmbH as the lender and Pfleiderer Group S.A. as the borrower entered into a loan agreement for EUR 36,849 thousand. The purpose of this agreement was to provide financing for the buyback of treasury shares (stage I). The loan was paid out on 2 October 2017 and then the unused amount of EUR 1,493 thousand was transferred to the lender on 11 October 2017.

On 16 March 2018, interests accrued in 2017 in the amount of EUR 293 thousand were repaid.

On 31 July 2018, under an offset agreement, a portion of the loan liability was settled with the receivable from the dividend payable to Pfleiderer Group S.A. from its subsidiary PCF GmbH as part of the distribution of profit for 2017 in the amount of EUR 1,719 thousand.

On 31 December 2018, the shareholders of the Company and, accordingly, the Management Board of the subsidiary PCF GmbH adopted a resolution for PCF GmbH to distribute an interim dividend in the amount of EUR 24,106 thousand to Pfleiderer Group S.A. from the profit generated in 2018.

On 31 December 2018, the Company and its subsidiary PCF GmbH entered into an Offsetting and Repayment Agreement. In this manner, a full settlement of the liability was performed.

On 30 January 2018, PCF GmbH as the lender and Pfleiderer Group S.A. as the borrower entered into a loan agreement for EUR 15,000 thousand. The purpose of the agreement was to obtain funding for the execution of the shares buyback program (stage II). The loan was transferred on 2 February 2018. Subsequently, on 6 February 2018, an unused amount of EUR 6,000 thousand was repaid to the lender.

As at 31 December 2018, outstanding debt under the loan was EUR 9,276 thousand (PLN 39,887 thousand).

On 8 August 2018, PCF GmbH as the lender and Pfleiderer Group S.A. as the borrower entered into a loan agreement for EUR 95,000 thousand. The purpose of the agreement was to obtain funding for the execution of the shares buyback program (stage III). The funding was provided in two stages. The first stage (non-cash) was made available on 2 August 2018 in the amount of EUR 6,411 thousand and was used to cover transaction costs associated with an amendment of the terms of the senior facilities agreement as part of the arrangement providing for the availability of additional external funding. The liabilities were covered directly by the subsidiary PCF GmbH. The remaining portion of the loan in the amount of EUR 88,589 thousand was transferred to the company's bank account on 20 August 2018.

As at 31 December 2018, outstanding debt under the loan was EUR 96,877 thousand (PLN 416,572 thousand).

Other financial liabilities

On 5 October 2015, in connection with the acquisition of share in Pfleiderer GmbH, Pfleiderer Group S.A. concluded the agreement with Atlantik SA, based on which Pfleiderer Group S.A. took over an obligation from Atlantik S.A. due to Pfleiderer Service GmbH representing proceeds from sale of Pfleiderer Group S.A. shares held by Pfleiderer Service GmbH after the settlement of Secondary Offering to Atlantik S.A.

On 16 March 2018, interests in the amount of EUR 3,050 thousand were repaid. As at 31 December 2018, outstanding debt was of EUR 127,953 thousand (PLN 550,200 thousand).

22. EMPLOYEE RELATED PAYABLES

	31 December 2018	31 December 2017
Payroll liabilities	253	238
Personal income tax liabilities	164	246
Liabilities on account of social security contributions	127	194
Social Benefits Fund	(13)	-
Retirement severance pay liabilities	125	128
Unused holiday accrual	253	277
Employee bonus accrual	2,299	365
Other employee liabilities	580	26
Total	3,788	1,474
Non-current portion	124	128
Current portion	3,664	1,346

Retirement bonus and disability severance payment obligations

Under the remuneration plans employees of the Company are entitled to retirement payments payable to employees after elapse of a defined number of years in service as well as retirement and pension benefits, paid once upon retirement. The amount of retirement and pension benefits depends on the number of years in service and an employee's average remuneration.

Every employee reaching the retirement age, who has the required documented years of service, is entitled to receive retirement money.

Employees with permanent work disability, entitling to disability benefits under the social security scheme, are entitled to receive disability severance payment.

The amount of retirement payment or disability severance payment is computed based on the employee's one-month pay. The amount of bonus or severance payment increases proportionately following ten years of service at the Company at the rate of 10% of the base pay for each year of service above ten years, and following 20 years of service at the Company – at the rate of 20% of the base pay for each year of service above 20 years. Pursuant to Art. 921§1 of the Labour Code, retirement and disability severance payments must not be lower than the employee's one-month pay.

Obligations under retirement and disability severance payments were determined by a qualified actuary using the actuarial projected unit credit method.

Assumptions used for calculation of the retirement bonus:

- Data on staff turnover was derived from the statistics of Pfleiderer Group S.A. and from the statistics available to an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. To reflect the nature of staff movements, the level of staff turnover was assumed to fall as the employees' age increases.
- The future mortality rate was based on the probability of death depending on age and based on published statistics and the information from the Life Expectancy Tables for Poland compiled by the Central Statistical Office (GUS), which are life expectancy tables generally accepted in Poland. It was assumed that the mortality rate of the population of the Company's employees is similar to the tables, adjusted for the mortality multiplier. Additionally it was assumed that the mortality rate is constant throughout the whole year.
- The probability of becoming a disabled person was based on the historical data from the Social Insurance Institution and estimates prepared by an actuary HALLEY.PL AKTUARIUSZE Sp. z o.o. According to the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does

not demonstrate significant sensitivity to slight changes of this parameter.

- The default retirement age for men is 65, and for women is 60, based on the Law signed by the President of the Republic of Poland on 19 December 2016 and its transitional regulations.
- In accordance with the rules governing the award of retirement bonuses, persons terminating their employment with the Company lose their rights to any future retirement bonus and disability severance payment.
- All benefits were calculated at the beginning of each calendar year, with the assumption that all of them are regular distributed throughout the year.
- The calculations were made in PLN.
- Wage increase rate of 3.5% in 2019 and 3% in 2020 and in each year thereafter.
- The discount rate on future benefits was assumed at 2.98%.

Employee bonus accrual

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

23. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017 <i>restated (*)</i>
Trade payables to other parties	5,595	1,948
Trade payables to related parties	4,120	3,434
Liabilities on account of a penalty imposed by OCCP	16,559	17,418
Current VAT liabilities	-	1,815
Other liabilities	45,794	45,763
Total	72,068	70,378

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

As at 31 December 2018 and 31 December 2017 other liabilities include in particular German tax on purchase of property in the amount of PLN 45,595 thousand. Direct acquisition of a share in PCF GmbH caused an obligation to pay German tax on purchase of property. The obligation arose from the fact that PCF GmbH directly and indirectly holds shares in Pfeleiderer Deutschland GmbH and Pfeleiderer Baruth GmbH, while the latter companies own properties in Germany. On the basis of information received from the German tax authorities and external analysis commissioned by the Company, the Management Board decided to increase the liability due to the tax on the transfer of real estate to the amount of PLN 45,595 thousand. The increase in the liability is a correction note for a material error in the financial statements for 2016. The increased tax liability has no impact on the financial result of 2018. The company anticipates that this commitment will be paid during 2019. Detailed information is included in note 31 of this report.

Liabilities related to the fine imposed by UOKiK as at 31 December 2018 include a provision created in connection with the decision of the President of the Office of Competition and Consumer Protection of 28 December 2017 imposing a fine of PLN 15,958 thousand on Pfeleiderer Group S.A. The provision created by the Company in the amount of PLN 16,559 thousand also includes a provision for legal costs related to the appeal proceedings in the amount of PLN 601 thousand. The decrease in liabilities related to the fine imposed by UOKiK results from the utilization of a portion of the provision for legal costs in the amount of PLN 859 thousand.

On 28 December 2017, the President of the Office of Competition and Consumer Protection issued decision no. DOK-3/2017 declaring as an anticompetitive practice the conclusion by Kronospan Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Swiss Krono Sp. z o.o. (formerly Kronopol Sp. z o.o.), Pfeleiderer Group S.A. (formerly Pfeleiderer Grajewo S.A.) and Pfeleiderer Wieruszów Sp. z o.o. (formerly Pfeleiderer Prospan S.A.) of an arrangement restricting competition on the domestic market for chipboard sales and on the domestic market for fibreboard sales, involving:

1. the fixing of prices for chipboard and fibreboard, which violates the prohibitions in Article 6 section 1 item 1 of the Competition and Consumer Protection Act and Article 101 item 1a of the Treaty on the Functioning of the European Union

2. the exchange of commercial information about the terms of sale of chipboard and fibreboard, which violates the prohibitions in Article 6 section 1 of the Competition and Consumer Protection Act and Article 101 item 1 of the Treaty on the Functioning of the European Union.

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

In the Decision, the OCCP President imposed a fine of PLN 15,957,741.83 on Pfleiderer Group S.A. and PLN 19,804,706.50 on Pfleiderer Wieruszów Sp. z o.o.

The decision ended the antitrust proceedings launched by the OCCP President in 2012. The decision is not yet final. On 29 January 2018, the Company and Pfleiderer Wieruszów Sp. z o.o. filed appeals against the Decision with the Court of Competition and Consumer Protection.

On 18 January 2018, in connection with the issuance of the Decision, the Company and Pfleiderer Wieruszów Sp. z o.o. recognised provisions in the total amount of PLN 38,682,078.33, with effect from 31 December 2017. The provisions were recognized to secure funds for the anticipated legal costs of appealing against the Decision and for the payment of possible penalties if the Company and Pfleiderer Wieruszów Sp. z o.o. are obliged to pay the penalties stated in the Decision.

Trade and other payables include the following financial liabilities:

	31 December 2018	31 December 2017
Trade payables	9,715	5,382
Other liabilities	229	170
Total	9,944	5,552

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

24. LIABILITIES TO RELATED PARTIES UNDER DEBT SECURITIES

	31 December 2018	31 December 2017
Liabilities to related parties under debt securities	92,932	146,869
Total	92,932	146,869

The liabilities under debt securities of PLN 92,932 thousand as at 31 December 2018 (31 December 2017: PLN 146,869 thousand) relate to the commercial papers issued in the form of short-term notes. The notes were purchased by the subsidiaries Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Polska Sp. z o.o.

The notes were issued under a debt issue program entered into with a bank. The maximum value of the notes that may be issued under the program is PLN 500,000 thousand.

25. FINANCIAL INSTRUMENTS

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

The management of the Capital Group bears general responsibility for establishing and supervising the framework over the risk management in the Capital Group.

The Group's financial risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems

are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's operations are exposed to the following risks:

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

25.2. Credit risk

The objective of the Company's credit risk management is to reduce losses which could be incurred due to customers' insolvency. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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

The total credit risk exposure was as follows:

	31 December 2018	31 December 2017
Loans advanced	29,465	108,213
Own receivables	17,642	18,959
Cash and cash equivalents	75,185	4,413
Total	122,292	131,585

Credit risk related to receivables from loans is not diversified. The Company has loan receivables from just one entity, Pfleiderer MDF Grajewo Sp. z o.o., which results in a significant concentration of credit risk as at 31 December 2018. On 28 February 2019 the loans were fully repaid.

Credit risk related to trade receivables is limited. Company as a holding company does not have any trade receivables from entities other than its related parties.

As at 31 December 2018 and 31 December 2017, the ageing structure of trade receivables was as follows:

	Gross value 31 December 2018	Impairment losses 31 December 2018
Not overdue	9,176	1
Overdue by:		
0–180 days	8,467	-
Total	17,643	1

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

Credit risk associated with bank deposits is assessed by the Company as low due to placing of cash deposits only in financial institutions with high credit rating.

25.3. Market risk

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

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

As far as market valuation of the instruments is concerned, the Company uses its own records and valuation for derivatives as well as relies on information obtained from market leading banks, brokers and information services. Derivative (currency forwards) transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

Interest rate risk

The Company holds cash at banks, has receivables under loans granted, as well as available credit facilities (there is no utilization of the available credit facilities as at 31 December 2018). Interest rate risk related to cash flow of financial instruments depends on the floating interest rates. As at the end of each reporting period, the Company did not hedge against the interest rate risk. Its current receivables and liabilities are not exposed to the interest rate risk.

Financial instruments with fixed and variable interest rate:

	31 December 2018	31 December 2017
Fixed-rate financial instruments		
Liabilities to related parties under debt securities	92,932	146,869
Borrowings from related parties	456,459	108,935
Other financial liabilities	550,200	530,647
	1,099,591	786,451
Variable-rate financial instruments		
Loans granted	29,465	108,213
Cash	75,185	4,413
	104,650	112,626

Sensitivity of cash flows from variable-rate financial instruments

A 1 basis points change in interest rates would lead to a change in net profit and equity by the amounts presented below. The analysis is based on the assumption that other variables, especially currency exchange rates, remain unchanged.

	1 January 2018 – 31 December 2018		1 January 2017 – 31 December 2017	
	increase 1%	decrease 1%	increase 1%	decrease 1%
Variable-rate financial instruments - contribution to profit before tax	2,011	(2,011)	3,099	(3,099)

Sensitivity of fair value of fixed-rate financial instruments

The Company does not have any fixed-rate financial assets or liabilities measured at fair value through profit or loss or any interest rate derivatives as hedging instruments. Therefore, a change in interest rates at the reporting date would not affect statement of profit and loss and other comprehensive income through changes in the fair value of financial instruments.

Currency risk

The objective of currency risk management is to minimize losses arising out of unfavourable changes in foreign exchange rates. The Company monitors its currency position from the point of view of cash flows.

The Company's currency risk is mainly related to the euro denominated loan from a subsidiary, drawn to finance the buyback of treasury shares (EUR 106,153 thousand) and other finance liabilities related to an obligation taken over from Atlantik S.A. (EUR 127,953 thousand). Detailed information is presented in Note 21.

The company is exposed to foreign exchange risk in connection with receivables and liabilities expressed in foreign currencies related to the holding operations.

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

As at 31 December 2018:	EUR	USD	GBP
Cash and cash equivalents	72,823	84	-
Trade receivables and prepayments	13,082	-	-
Loans, borrowings and debt securities	(1,006,659)	-	-
Trade and other payables	(4,952)	-	(287)
Other liabilities	(45,595)	-	-
Balance-sheet exposure, gross	(971,301)	84	(287)
Transactions in derivative instruments:	-	-	-
Net exposure under financial instruments	(971,301)	84	(287)

As at 31 December 2017: <i>restated (*)</i>	EUR	USD	USD
Cash and cash equivalents	58	-	78
Trade receivables and prepayments	4,960	-	-
Loans, borrowings and debt securities	(639,583)	-	-
Trade and other payables	(3,088)	-	-
Other liabilities	(45,595)	-	-
Balance-sheet exposure, gross	(683,248)	-	78
Transactions in derivative instruments:	-	-	-
Net exposure under financial instruments	(683,248)	-	78

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

Sensitivity to currency exchange rate changes

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

As at 31 December 2018:	+5% change	-5% change
EUR	(48,565)	48,565
USD	4	(4)
GBP	(14)	14
Effect on profit before tax	(48,575)	48,575
Effect on equity	-	-

As at 31 December 2017: <i>restated (*)</i>	+5% change	-5% change
EUR	(34,162)	34,162
USD	4	(4)
Effect on profit before tax	(32,158)	34,158
Effect on equity	-	-

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

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

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

25.4. Liquidity risk

Liquidity management is aimed at protecting the Capital Group against insolvency. This goal is achieved through regular forecasting of debt levels in the perspective of five years and obtaining appropriate financing.

The following tables present a breakdown of the Company's financial liabilities depending on the time remaining to the expiration of the contractual maturity date as at the balance sheet date. The amounts presented in the tables are contractual undiscounted cash flows.

As at 31 December 2018	Carrying amount	contractual cash flows	up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years
Borrowings from subsidiaries	456,459	456,459	456,459	-	-	-	-
Other financial liabilities	550,200	550,200	550,200	-	-	-	-
Liabilities under debt securities	92,932	93,000	93,000	-	-	-	-
Trade and other payables	9,944	9,944	9,944	-	-	-	-
	1,109,535	1,109,603	1,109,603	-	-	-	-

The intention of the Management Board is to capitalize interest on loans and other financial liabilities in the amount of PLN 25,500 thousand.

As at 31 December 2017	Carrying amount	contractual cash flows	up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years
Borrowings from subsidiaries	108,935	109,389	109,389	-	-	-	-
Other financial liabilities	530,647	533,345	533,345	-	-	-	-
Liabilities under debt securities	146,869	147,000	147,000	-	-	-	-
Trade and other payables	5,552	5,552	5,552	-	-	-	-
	792,003	795,286	795,286	-	-	-	-

As at 31 December 2018, the Company had no debt under bank loans. As at 31 December 2018, unused credit facilities amounted to PLN 172,388 thousand. The total amount of credit limits was PLN 200,352 thousand. Credit limits are available until 1 August 2022. For details, see Note 21 to these financial statements. The Company also held cash of PLN 75,185 thousand.

The Company also financed its operations by issuing short-term notes which were acquired by its subsidiaries: Pfeleiderer Wieruszów Sp. z o.o., Pfeleiderer Polska Sp. z o.o. After redemption, a new series of short-term notes is usually issued for another period, which provides a constant source of financing for the Company.

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

Share buyback was financed from loans granted by PCF GmbH. Detailed information about borrowings from subsidiaries is presented in Note 21.

25.5. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities approximates their carrying amounts as at 31 December 2018 and 31 December 2017.

25.6. Capital management

The key ratio used by Pfleiderer Group S.A. to monitor equity is the ratio of equity to total assets. In 2018, the ratio decreased from 65.59% to 49.82%. The decrease was due to the lower net profit generated by the Company in 2018 in the amount of PLN 144,442 thousand (PLN 415,542 thousand in 2017), mainly as a result of lower income from dividends received in the amount of PLN 202,837 thousand (PLN 413,318 thousand in 2017).

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

	31 December 2018	31 December 2017 <i>restated (*)</i>
Equity	1,135,138	1,443,238
Total assets	2,278,687	2,305,734
<i>Ratio: Equity / Total assets</i>	48.82%	62.59%

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

The Company manages equity in a manner enabling it to maintain a safe level of the debt to equity ratio. The decrease in the Equity/Debt ratio from 172% to 99% resulted mainly from the increase in loans from related parties drawn in 2018 to execute the shares buyback program and the lower level of equity as a consequence of lower net profit generated in 2018.

In 2018, the Company paid a dividend in the amount of PLN 71,165 thousand.

Pursuant to the Commercial Company Code, the Company is obliged to create statutory reserve funds by transferring at least 8% of net profit for a given financial year to the statutory reserve funds until statutory reserve funds reach one-third of the Company's share capital.

26. OPERATING LEASES

As at the balance sheet date, the Company leased 3 company cars under operating lease agreements. The term of all those agreements is 36 months. The last agreements will expire in January 2021. In addition, the Company is a party to long-term lease agreements for office space in the headquarters in Warsaw and Wrocław, moreover the Company holds land in perpetual usufruct with a total area of 5.37 hectares. The right of perpetual usufruct is vested in the Company until 2092.

The payments due to contracts and payments resulting from the perpetual usufruct right, remaining as at reporting date are presented in the table below:

	31 December 2018	31 December 2017
up to 1 year	1 090	230
1-5 years	1 161	170
Over 5 years	1 819	0
Total	4 070	400

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

As at 31 December 2018, the Company did not have any contractual commitments to acquire property, plant and equipment items.

28. CONTINGENT LIABILITIES AND SECURITY

Guarantees granted and security liabilities:

Security

On 13 April 2017, the Group finalized and signed the PRIME Agreement for senior secured credit facilities in the amount of EUR 450,000 thousand, consisting of:

7-year covenant-lite tranche B term loan of EUR 350,000 thousand + margin (Euribor minimum: 0.75%) and OID of 99.0, and a 5-year revolving facility of EUR 100,000 thousand + margin (Euribor minimum: 0%).

On 31 July 2018, the PRIME Agreement was annexed and the amount of financing under TLB was increased to EUR 445,000, resulting in an increase in the total funding amount made available under the PRIME Agreement to EUR 545,000 thousand.

The proceeds from the above facilities were used to redeem all senior secured bonds in the amount of EUR 321,684 thousand issued on 27 June 2014 by PCF GmbH (formerly Pfleiderer GmbH) ("Bonds") to refinance the current senior secured renewable credit facility and to finance the related transaction fees, redemption premium and costs and for general corporate purposes and working capital. The proceeds from this increase in funding in 2018 were used to buy back treasury shares on 25 August 2018 and to finance the related transaction fees, bonuses and costs in the total amount of EUR 78,301 thousand. A portion of this funding in the amount of EUR 16,699 thousand remains at the disposal of the Pfleiderer Group and may be used to buy back additional treasury shares.

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

In order to secure new liabilities under the senior facility agreement of 13 April 2017 (amended and renewed on 31 July 2018) on 1 August 2017, Pfleiderer Group S.A. established a financial pledge and, subject to its registration, a registered pledge on the shares of Pfleiderer Polska Sp. z o.o. and granted a power-of-attorney to enforce the rights attached to the pledged shares to Trigon Dom Maklerski S.A. ("Polish Security Agent").

To secure the liabilities under the senior facility agreement of 13 April 2018 and the annex of 31 July 2018, the following collateral was established in favor of the lenders:

(i) Pfleiderer Group S.A. concluded an agreement on financial and registered pledges on shares of Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. and granted a power-of-attorney to enforce rights attached to the pledged shares of these companies in favor of Trigon Dom Maklerski S.A. ("Polish Security Agent").

(ii) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. concluded agreements on financial and registered pledges on bank accounts and granted the powers-of-attorney to the Polish Security Agent to use funds from their bank accounts.

(iii) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. entered into assignment agreements to assign commercial, intragroup credit and insurance contracts.

(iv) The following mortgages were established for the Polish Security Agent:

a) Mortgage on properties and perpetual usufruct rights held by Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.) in Wieruszów, Wieruszów/Klatka and Wieruszów/Pieczyska;

b) Mortgage on perpetual usufruct rights held by Pfleiderer MDF Grajewo Sp. z o.o. in Grajewo; and

c) Mortgage on properties and perpetual usufruct rights held by Pfleiderer Silekol Sp. z o.o. in Kędzierzyn-Koźle.

(v) Pfleiderer Group S.A., Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.), Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. submitted their declarations of submitting to enforcement in favor of the Security Agent.

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

To secure the liabilities under the senior facility agreement of 13 April 2017 and the annex of 31 July 2018, the following collateral was established in favor of the lenders, while Wilmington Trust (London) Limited was established as a new security agent ("New Security Agent"):

(i) Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland GmbH as pledgors established pledges on their shares held in PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH.

(ii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH i Pfleiderer Baruth GmbH as pledgors established pledges on their main bank accounts.

(iii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH as assignors established security on their receivables under loans from related parties, material trade receivables and insurance receivables.

(iv) German land charges paid were assigned to the Security Agent.

Contingent liabilities

As at 31 December 2018, the Company did not identify any significant contingent liabilities.

29. MATERIAL RELATED-PARTY TRANSACTIONS

In 2018 and 2017, Pfeleiderer Group S.A. executed the following commercial transactions with related parties:

1 January 2018 – 31 December 2018								
Related party	Financial income	Other operating income	Dividend income	Purchase of services	Other operating expenses	Finance costs	Costs related to obtaining funding	Capitalized costs
Pfleiderer Polska Sp. z o.o.	1,021	8,393	88,216	589	3	76	-	-
Pfleiderer MDF Grajewo Sp. z o.o.	3,436	331	-	1	-	-	-	-
Pfleiderer Wieruszów Sp. z o.o.	(628)	2,992	-	10	-	1,912	-	-
Pfleiderer Silekol Sp. z o.o.	120	2,008	-	-	-	-	-	-
Jura Polska Sp. z o.o.	-	25	-	-	-	-	-	-
Pfleiderer Grajewo Sp. z o.o.	(56)	1,050	-	26	-	-	-	-
PCF GmbH	5,366	757	114,621	722	-	28,980	1,190	205
Pfleiderer Deutschland GmbH	-	3,031	-	203	-	-	-	-
Pfleiderer Neumarkt GmbH	-	4,603	-	-	-	-	-	-
Pfleiderer Leutkirch GmbH	-	2,243	-	-	-	-	-	-
Pfleiderer Gutersloh GmbH	-	3,009	-	-	-	-	-	-
Pfleiderer Arnsberg GmbH	-	1,613	-	-	-	-	-	-
Pfleiderer Baruth GmbH	-	2,673	-	-	-	-	-	-
Total	9,259	32,728	202,837	1,551	3	30,968	1,190	205

PFLEIDERER GROUP S.A.

Notes to the annual standalone financial statements for the financial year ended 31 December 2018

(all amounts in PLN thousand)



1 January 2017 – 31 December 2017								
Related party	Financial income	Other operating income	Dividend income	Purchase of services	Other operating expenses	Finance costs	Costs related to obtaining funding	Capitalized costs
Pfleiderer Polska Sp. z o.o.	247	11,566	42,246	961	-	51	-	-
Pfleiderer MDF Grajewo Sp. z o.o.	6,458	240	-	2	-	-	-	-
Pfleiderer Wieruszów Sp. z o.o.	2,364	541	-	51	-	2,301	-	-
Pfleiderer Silekol Sp. z o.o.	1,408	156	-	36	-	-	-	-
Jura Polska Sp. z o.o.	-	21	-	217	-	-	-	-
Pfleiderer Grajewo Sp. z o.o.	1,453	299	-	814	44	-	-	-
PCF GmbH	49,593	51	371,072	240	140	21,447	-	-
Pfleiderer Deutschland GmbH	-	791	-	-	-	-	-	-
Total	61,523	13,665	413,318	2,321	184	23,799	-	-

Notes are an integral part of these annual separate financial statements

PFLEIDERER GROUP S.A.**Notes to the annual standalone financial statements
for the financial year ended 31 December 2018**

(all amounts in PLN thousand)



Related-party transactions as at 31 December 2018 and 31 December 2017 were as follows:

a) financial, trade and other receivables:

Related party	31 December 2018			31 December 2017		
	Loans advanced	Dividend receivables	Trade receivables	Loans advanced	Dividend receivables	Trade receivables
Pfleiderer MDF Grajewo Sp. z o.o.	29,465	-	409	108,213	-	14
Pfleiderer Wieruszów Sp. z o.o.	-	-	1,788	-	-	141
Pfleiderer Polska Sp. z o.o.	-	21,600	340	-	41,472	12,350
Pfleiderer Silekol Sp. z o.o.	-	-	657	-	-	89
Jura Polska Sp. z o.o.	-	-	22	-	-	24
Pfleiderer Grajewo Sp. z o.o.	-	-	1,314	-	-	52
PCF GmbH	-	-	89	-	-	4,169
Pfleiderer Neumarkt GmbH	-	-	4,612	-	-	-
Pfleiderer Gütersloh GmbH	-	-	3,015	-	-	-
Pfleiderer Deutschland GmbH	-	-	1,898	-	-	791
Pfleiderer Leutkirch GmbH	-	-	2,247	-	-	-
Pfleiderer Arnsberg GmbH	-	-	476	-	-	-
Pfleiderer Baruth GmbH	-	-	745	-	-	-
Total	29,465	21,600	17,612	108,213	41,472	17,630

b) financial liabilities, trade and other payables:

Related party	31 December 2018		31 December 2017	
	Financial liabilities (bonds and notes, loans)	Trade receivables	Financial liabilities (bonds and notes, loans)	Trade receivables
Pfleiderer Wieruszów Sp. z o.o.	75,945	-	146,869	-
Pfleiderer Polska Sp. z o.o.	16,988	4,015	-	1,147
Pfleiderer Silekol Sp. z o.o.	-	-	-	40
Pfleiderer Grajewo Sp. z o.o.	-	6	-	9
PCF GmbH	1,006,659	44	639,583	2,081
Pfleiderer Deutschland GmbH	-	55	-	157
Total	1,099,592	4,120	786,452	3,434

All the related party transactions were executed on an arm's length basis.

Amounts due but unpaid are not secured and will be settled in cash. Guarantees and securities extended are described in Note 28 to these financial statements.

Remuneration of members of the Management and Supervisory Boards

Remuneration of members of the Pfleiderer Group S.A. Management Board (including bonuses) paid and payable for the reporting period was as follows:

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Tom K. Schäbinger (from 1 June 2017)	1,697	546
Dirk Hardow	1,008	508
Dr. Nico Reiner (from 1 April 2018)	862	-
Ivo Schintz (from 1 August 2017)	2,510	548
Richard Mayer (until 31 March 2018)	157	798
Rafał Karcz (until 30 September 2017)	-	3,588
Wojciech Gątkiewicz (until 1 August 2017)	-	840
Michael Wolff (until 1 June 2017)	-	1,238
Total	6,234	8,066

The remuneration of Mr. Ivo Schintz for 2018 includes the cost of severance pay (a benefit payable due to an early termination of the employment relationship) in the amount of PLN 568 thousand.

As of 31 December 2018 The President of the Management Board, Tom K. Schäbinger, held 16 750 shares, other members of the Management Board held no shares in the Company.

Remuneration paid to members of Pfleiderer Group S.A.'s Supervisory Board in the reporting period was as follows:

Name	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Zbigniew Prokopowicz	1,446	1,342
Michael F. Keppel	421	400
Krzysztof Sędzikowski	359	338
Jan Woźniak	336	249
Stefan Wegener (until 18 October 2017)	-	367
Tod Kersten (until 18 October 2017)	-	124
Total	2,562	2,820

As at 31 December 2018, other members of the Pfleiderer Group S.A.'s Supervisory Board did not hold any shares in the Company.

As at 31 December 2018, the members of the Management and Supervisory Boards of Pfleiderer Group S.A. had no outstanding debt under loans from the Company.

Long-term incentive program

On 20 September 2017, the Company's Supervisory Board adopted a resolution regarding the determination of the terms of a long-term incentive program for selected members of the Company's Management Board ("Management Board LTIP").

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

According to the terms of the LTIP, the Company will grant selected members of the Management Board and the Supervisory Board (the "Managers") the option to acquire existing shares in the share capital of the Company (the "Call Option Shares") in exchange for the exercise price per share multiplied by the number of the Call Option Shares

to which each Manager is entitled (the "Call Option"). As a rule, the Managers will be entitled to receive the Call Option Shares if they remain a member of a respective governing body of the Company or their appointment as a member of the respective governing body of Company expires pursuant to certain conditions, including, in particular: (i) death; (ii) disability due to which the Manager is unable to perform his duties as a member of a respective governing body of the Company; or (iii) the lapse of the term for which the respective Manager was appointed as a member of the respective governing body of Company and the lack of election to a subsequent term of office for reasons other than for cause or occurrence of a material breach of his obligations; or (iv) dismissal from the respective governing body of Company for reasons other than for cause or occurrence of a material breach of his obligations.

The Call Option will be vested in six tranches. Each vested tranche will entitle each Manager to acquire, respectively, 5%, 5%, 7.5%, 10%, 22.5% and 50% (each defined as a "Tranche") of the overall number of the Call Option Shares to which each Manager is entitled if with respect to a given Tranche the price of the Company's shares reaches, respectively, PLN 40.00, PLN 47.00, PLN 55.00, PLN 63.00, PLN 70.00 and PLN 80.00 ("Tested Share Price"). In the event that, during the term of five consecutive years from the date of the adoption of the resolution regarding the Supervisory Board LTIP, the Tested Share Price for any of the respective Tranche has not been met and Call Option Shares related with such Tranche were not vested, the Manager shall irrevocably lose the right to acquire such Call Option Shares without the right to any compensation. The Tested Share Price constitutes: (i) the arithmetic average of the market price of the shares established on the basis of the daily volume-weighted average prices at the end of each period of 70 (seventy) consecutive trading days on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) through the whole term of the LTIP starting from 1 June 2017 (the "Share Price Test Period"), increased by the sum of all dividends paid or declared to be paid by the Company in the period from the date of the 2 adoption of the resolution regarding the Supervisory Board LTIP until respective Share Price Test Period divided by all of the shares in the Company's share capital; or (ii) the price received by any of the shareholders of the Company holding, individually or in aggregate in case of entities with respect to which their shareholding is aggregated pursuant to applicable securities regulations as at the date of the adoption of the resolution regarding the Supervisory Board LTIP, at least 10% of the shares in the share capital of the Company and the corresponding number of votes at the general meeting of the shareholders of the Company (the "Significant Shareholders") as a result of the direct or indirect transfer by the Significant Shareholders, jointly, of such number of the shares which would result in decreasing their share in the overall number of votes at the general meeting of the shareholders of the Company below 10%, except in the event that one Significant Shareholder sells his shares to the other Significant Shareholder(s).

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

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

In 2018, the Company recognised the cost of the Program in the amount of PLN 2,290 thousand (details are described in Note 10).

30. ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS

Structure of cash and cash equivalents

	31 December 2018	31 December 2017
Cash in hand and at banks	75,185	4,413
Cash disclosed in the statement of cash flows	75,185	4,413

Reconciliation of the change in trade and other payables

	31 December 2018	31 December 2017
Change in trade and other payables	1,690	16,838
Change in capital expenditure liabilities	-	4
Change in liabilities under settlement of financial costs	852	22
Liabilities on the acquisition of related parties	222	(222)
Change in liabilities under settlement of securities	-	2,888
Income tax liability to other companies in the Tax Group	-	529
Provision for other costs related to financing acquisition	(26)	-
Provision for banking fees related to funding	(8)	-
	2,730	20,059

Reconciliation of the change in trade and other receivables:

	31 December 2018	31 December 2017
Change in trade and other receivables	13,605	(53,394)
Change in receivables under settlement of securities	-	3,592
Change in prepayments related to acquisition financing costs settled over time	(351)	(38)
Adjustment to acquisition financing costs settled over time based on change in allocation key	826	-
Change in dividend receivables	(14,443)	41,473
Tax receivables from companies in the Tax Group	-	(540)
Change in receivables related to current financing costs settlement between Group companies	(3,864)	-
	(4,227)	(8,907)

Reconciliation of the change in employee related payables

	31 December 2018	31 December 2017
Change in employee benefit obligations	2,314	(1,893)
Change in employee benefit obligations recognized as other comprehensive income	22	75
Interest portion of employee benefit obligations	(4)	(6)
	2,332	(1,824)

31. CORRECTION OF ERRORS

In this report, the Company corrected error found in the financial statements for the financial year ended 31 December 2016 in the relevant areas of the statement of financial position. Correction does not affect the Company's profits or losses of the financial statements for 2018.

This adjustment results from the incorrect determination of the tax liability resulting from the indirect acquisition of real estate located in Germany, resulting from an intra-group restructuring carried out in 2016 and the acquisition of 100% shares in a subsidiary PCF GmbH (formerly Pfleiderer GmbH).

In the financial statements for 2016 year this liability was recognized in the amount of PLN 22,245 thousand (EUR 5,400 thousand) and presented in the other liabilities and as part of the purchase price was referred to shares in subsidiaries.

As a result of information received from the German tax authorities and external analysis commissioned by the Company, the Management Board admitted that liability was recognized in the underestimated amount and on 13 March 2019 decided to increase the liability due to the amount of PLN 45,595 thousand (EUR 10,600 thousand). The increased tax liability was presented in other liabilities and related to shares in subsidiaries. The Management Board of the Company anticipates that the payment will be settled in 2019.

32. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Changes in the Supervisory Board

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

On 7 February 2019, Mr. John Brantl and Mr. Julian von Martius were appointed to the Supervisory Board.

Changes in the Management Board

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

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

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

Redemption and issue of debt securities

In order to optimizing the financial liquidity management of the Company Pfleiderer Group S.A. after 31 December 2018 carried out 7 issues of commercial paper in a form of short-term notes. The notes were issued under agreement executed with Bank PEKAO S.A. in accordance with a Polish Bonds Act of 29 June 1995 r. as PLN-denominated, unsecured, zero-coupon bearer securities. The notes are redeemed at par value. The notes were acquired by subsidiary Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Polska Sp. z o.o. and Pfleiderer Silekol Sp. z o.o. As a result of these transactions, Pfleiderer Group S.A. will pay interests in amount of PLN 305 thousand.

Dividends received

On 28 March 2019, Pfleiderer Group S.A. received an interim dividend for 2018 from Pfleiderer Polska Sp. z o.o. in the amount of PLN 21,600 thousand.

Repayment of the loans granted to the subsidiary

On 28 February 2019, the Company received the amount of PLN 29,658 thousand from Pfleiderer MDF Grajewo Sp. z o.o. in respect of repayment of the loans in the amount of PLN 29,465 thousand and repayment of interest accrued after the reporting period until the loan repayment date in the amount of PLN 193 thousand.

Conclusion of significant agreement

On 11 April 2019, Pfleiderer Group companies (Pfleiderer Polska Sp. z o.o. – as Coordinator and Participants: Pfleiderer Group S.A., Pfleiderer MDF Grajewo Sp. z o.o., Pfleiderer Wieruszów Sp. z o.o., Pfleiderer Silekol Sp. z o.o., Pfleiderer Grajewo Sp. z o.o., Jura Polska Sp. z o.o.) concluded the Agreement with Bank Millennium S.A. on the cash management structure for the group of accounts and the annex to the ancillary agreement of 27 June 2017. Under the agreement on the cash management structure for the group of accounts, the Bank will perform settlements of one structure in PLN and one in EUR. Conclusion of the Annex to the ancillary agreement of 27 June 2017 makes available part of the Revolving Facility 2 in the form of an overdraft up to PLN 80 000 thousand to the Coordinator and through the structure to all Participants.

The collateral for the repayment of the participants' mutual obligations is guaranteed up to PLN 80 000 thousand.

33. FORECAST OF THE ECONOMIC SITUATION IN THE NEAR FUTURE

Due to the current market situation, the Company will suspend the publication of its forecasts for 2019 until the volatility of market changes diminishes and the situation on the furniture manufacturer market stabilizes.

Tom K. Schäbinger
President of the Management Board

Nico Reiner
*Member of the Management Board, Chief
Financial Officer*

Wrocław, 24 April 2019