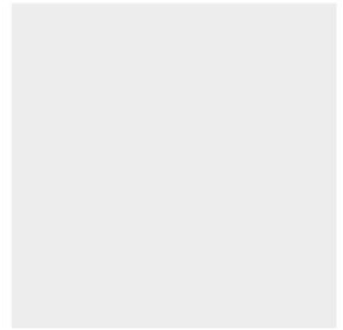

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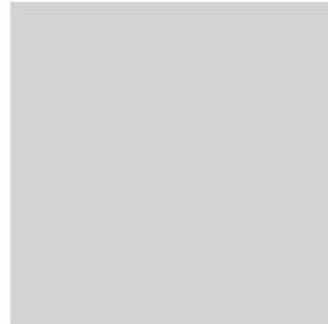
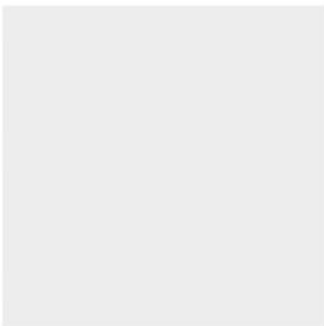
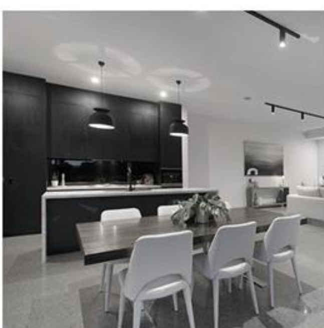


PFLEIDERER GROUP S.A.





ANNUAL CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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MANAGEMENT BOARD'S STATEMENT

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

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

Thomas Schäbinger
President of the Management Board

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

Wrocław, 24 April 2019

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

PFLEIDERER

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS '000 EUR	Note	31 Dec. 2018	31 Dec. 2017 restated (*)	1 Jan. 2017 restated (*)
Property, plant and equipment	13	558 587	554 279	548 863
Intangible assets	14	79 179	82 907	83 091
Goodwill	6	66 792	67 541	66 171
Long term investments	26a	490	511	515
Investment property	15	843	850	875
Deferred tax assets	16	475	6 471	5 948
Advances paid on fixed assets		8 052	9 877	3 016
Government grants receivables	17	3 251	5 275	12 921
Other non current assets		1	3	2
Non-current assets		**717 670**	**727 714**	**721 402**
Inventories	18	116 292	96 301	91 903
Trade and other receivables	19	33 829	35 673	32 878
Income tax receivable		511	244	376
Government grant receivables	17	0	0	642
Cash and cash equivalents		33 495	83 845	97 726
Fair value of hedging instruments	26f	81	380	0
Other short term financial assets		289	326	0
Current assets		**184 497**	**216 769**	**223 525**
Total assets		902 167	944 483	944 927

LIABILITIES AND EQUITY '000 EUR		31 Dec. 2018	31 Dec. 2017 restated	1 Jan. 2017 restated
Share capital	20	6 692	6 692	6 692
Share premium	20	146 375	146 375	146 375
Statutory reserve funds	20	79 391	87 281	91 801
Reserves	20	-11 921	-10 330	-13 937
Retained earnings		-87 267	4 456	34 896
Total equity attributable to owners of the Company		133 270	234 474	265 827
Total equity	20	133 270	234 474	265 827
Liabilities				
Loans and borrowings	22	425 875	336 155	329 762
Provisions for employee benefits	23	52 072	53 389	56 893
Provisions	24	1 886	1 453	3 694
Deferred tax liabilities	16	59 721	65 625	64 176
Deferred income from government grants	17	6 252	8 807	17 439
Other non-current liabilities		21	18	239
Non-current liabilities		**545 827**	**465 447**	**472 203**
Loans and borrowings	22	6 211	2 529	10 898
Income tax payable		6 912	15 734	10 559
Trade and other payables	25,26d	170 594	188 396	149 539
Employee related payables	23	24 478	21 794	22 118
Provisions	24	14 432	15 555	12 782
Fair value of hedging instruments		16	0	0
Deferred income from government grant	17	427	554	1 001
Current liabilities		**223 070**	**244 562**	**206 897**
Total liabilities		**768 897**	**710 009**	**679 100**
Total equity and liabilities		902 167	944 483	944 927

(*) the restatement of comparative data is described in Note 29

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

'000 EUR	Note	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Revenue	5	1 062 471	1 006 395
Cost of sales	10	-823 579	-775 457
Profit on sales		**238 892**	**230 938**
Other operating income	7	5 905	16 032
Distribution expenses	10	-131 695	-131 787
General and administrative expenses	10	-49 627	-51 969
Other operating costs	8	-8 713	-17 133
Result from operating activities		**54 762**	**46 081**
Financial income		288	8 127
Financial expenses		-26 139	-34 701
Exchange differences		-4 699	10 859
Net financing cost	**9**	**-30 550**	**-15 715**
Profit before tax		**24 212**	**30 366**
Income tax expense	12	-18 307	-13 227
Net profit for the reporting period		5 905	17 139
OTHER COMPREHENSIVE INCOME			
Actuarial gains and losses net of related tax		-26	2 454
Exchange differences		-1 851	67
Items that will not be reclassified subsequently to profit or loss		**-1 877**	**2 521**
Cash flow hedge - effective portion of changes in fair value net to related tax		-447	1 825
Cash flow hedge - net change of fair value reclassified to current year profit or loss net of tax		198	-784
Items that are or may be reclassified subsequently to profit or loss		**-249**	**1 041**
OTHER COMPREHENSIVE INCOME		-2 126	3 562
Total comprehensive income for the period		**3 779**	**20 701**
Profit for the period attributable to:			
Shareholders of the Company		5 905	17 139
Profit for the period		5 905	17 139
Total comprehensive income attributable to:			
Shareholders of the Company		3 779	20 701
Total comprehensive income for the period		3 779	20 701
Number of shares at the end of the reporting period (excluding treasury shares)		51 760 806	61 465 957
Average number of shares during the reporting period (excluding treasury shares)	21	56 837 183	63 991 955
Basic and diluted earnings per share	21	0.10	0.27

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Financial year ended 31 December 2018

'000 EUR	Share capital	Share premium	Reserve for own shares	Statutory reserve funds	Re-valuation reserve	Exchange rate differences	Incentive programme	Actuarial gains and losses	Cash flow hedges	Retained earnings	Total
As at 1 Jan. 2018 (restated)	6 692	146 375	60 395	26 886	145	-7 987	45	-2 867	334	4 456	234 474
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	0	0	5 905	**5 905**
Other comprehensive income	0	0	0	0	0	-1 851	0	-26	-249	0	**-2 126**
Total comprehensive income for the period	0	0	0	0	0	-1 851	0	-26	-249	5 905	3 779
Transactions with owners recognised in equity											
Equity settled share based payments	0	0	0	0	0	0	535	0	0	0	**535**
Transfer of part of 2017 net profit to reserve for own funds	0	0	0	80 909	0	0	0	0	0	-80 909	**0**
Transfer of part of statutory reserve fund to reserve for own shares	0	0	83 194	-83 194	0	0	0	0	0	0	**0**
Dividend payment	0	0	0	0	0	0	0	0	0	-16 719	**-16 719**
Own shares purchase	0	0	-88 799	0	0	0	0	0	0	0	**-88 799**
Total transactions with owners recognised in equity	**0**	**0**	**-5 605**	**-2 285**	**0**	**0**	**535**	**0**	**0**	**-97 628**	**-104 983**
As at 31 Dec. 2018	**6 692**	**146 375**	**54 790**	**24 601**	**145**	**-9 838**	**580**	**-2 893**	**85**	**-87 267**	**133 270**

Financial year ended 31 December 2017 (restated)

'000 EUR	Share capital	Share premium	Reserve for own shares	Statutory reserve funds	Re-valuation reserve	Exchange rate differences	Incentive programme	Actuarial gains and losses	Cash flow hedges	Retained earnings	Total
As at 1 Jan. 2017 (restated)	6 692	146 375	32 734	59 067	145	-8 054	0	-5 321	-707	34 896	265 827
Comprehensive income for the period											
Net profit	0	0	0	0	0	0	0	0	0	17 139	**17 139**
Other comprehensive income	0	0	0	0	0	67	0	2 454	1 041	0	**3 562**
Total comprehensive income for the period	0	0	0	0	0	67	0	2 454	1 041	17 139	20 701
Transactions with owners recognised in equity											
Equity settled share based payments	0	0	0	0	0	0	45	0	0	0	**45**
Transfer of part of 2016 net profit to reserve for own funds	0	0	31 123	0	0	0	0	0	0	-31 123	**0**
Transfer of part of statutory reserve fund to reserve for own shares	0	0	32 181	-32 181	0	0	0	0	0	0	**0**
Dividend payment	0	0	0	0	0	0	0	0	0	-16 456	**-16 456**
Own shares purchase	0	0	-35 643	0	0	0	0	0	0	0	**-35 643**
Transactions with owners recognised in equity	**0**	**0**	**27 661**	**-32 181**	**0**	**0**	**45**	**0**	**0**	**-47 579**	**-52 054**
As at 31 Dec. 2017	**6 692**	**146 375**	**60 395**	**26 886**	**145**	**-7 987**	**45**	**-2 867**	**334**	**4 456**	**234 474**

CONSOLIDATED STATEMENTS OF CASH FLOWS

'000 EUR	Note	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Net profit for the reporting period		**5 905**	**17 139**
Depreciation and amortisation	10	79 002	73 872
Foreign exchange gains or losses	9	4 699	-10 859
Interest for the period		26 049	27 358
Profit on investing activities		202	92
Income tax disclosed in profit or loss of the period	12	18 307	13 227
Amortisation of government grants	17	-351	-844
Result on forward contracts		-198	-784
Increase in exchange differences on translating foreign operations		-1 323	1 684
Changes in			
trade and other receivables	28	1 455	-7 588
inventories		-21 319	-2 000
trade and other payables	28	-10 495	28 632
employee benefit obligations		-2 658	477
provisions		-682	517
Cash generated from operating activities		**98 593**	**140 923**
Income tax (paid)/received	12	-27 014	-7 594
Net cash provided by operating activities		71 579	133 329
Net cash used in investing activities			
Disposal of property, plant and equipment		72	29
Interest received		288	100
Acquisition of intangible assets and property, plant and equipment		-85 456	-66 887
Net cash used in investing activities		-85 096	-66 758
Net cash used in financing activities			
Repayment of borrowings and other debt instruments		0	-321 684
Increase of borrowings and other debt instruments		99 212	350 000
Redemption fee and refinancing costs		-8 042	-21 200
Shares buy-back	20a	-88 798	-35 643
Dividend payments		-16 933	-16 456
Interest paid	28	-18 130	-28 327
Other financing activities		-4 142	-7 142
Net cash used in financing activities		-36 833	-80 452
Total cash flows		-50 350	-13 881
Decrease/Increase in cash		-50 350	-13 881
Cash at beginning of the period		83 845	97 726
Cash at the end of the period		33 495	83 845

The notes are an integral part of these consolidated financial statements

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1. GENERAL INFORMATION

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

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

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

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

These consolidated financial statements of the Pfleiderer Group S.A. comprise the financial information of the Company and its subsidiaries (collectively the "Group"). They were authorized for issue by the Company's Management Board on 24 April 2019.

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

2. STRUCTURE OF THE GROUP

The Pfleiderer Group consists of Pfleiderer Group S.A. and its subsidiaries (together "the Group" or "the Pfleiderer Group"). As of 31 December 2018, the Pfleiderer Group S.A. was the parent company with respect to the following subsidiaries:

Eastern Europe		31 Dec. 2018	31 Dec. 2017
Jura Polska Sp. z o.o.	Grajewo	100%	100%
Pfleiderer Grajewo Sp. z o.o.	Grajewo	100%	100%
Pfleiderer MDF Grajewo Sp. z o.o.	Grajewo	100%	100%
Pfleiderer Wieruszów Sp. z o.o. (formerly Pfleiderer Prospan S.A.)	Wieruszów	100%	100%
Pfleiderer Polska Sp. z o.o.	Wrocław	100%	100%
Pfleiderer Silekol Sp. z o.o.	Kędzierzyn-Koźle	100%	100%
Unifloor Sp. z o.o. (in liquidation)	Wieruszów	100%	100%
Western Europe		**31 Dec. 2018**	**31 Dec. 2017**
PCF GmbH (previously Pfleiderer GmbH)	Neumarkt, Germany	100%	100%
Pfleiderer Austria GmbH	Vienna, Austria	100%	100%
Pfleiderer Southeast Europe S.R.L.	Bucharest, Romania	100%	100%
Pfleiderer Deutschland GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Neumarkt GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Gütersloh GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Leutkirch GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Erwerbergesellschaft mbH	Neumarkt, Germany	100%	100%
Pfleiderer Arnsberg GmbH	Neumarkt, Germany	100%	100%
Pfleiderer Baruth GmbH	Neumarkt, Germany	100%	100%
Heller Holz GmbH	Neumarkt, Germany	100%	100%
JURA-Spedition GmbH	Neumarkt, Germany	100%	100%
Pfleiderer France S.A.S.	Reims, France	100%	100%
Pfleiderer Benelux B.V.	Deventer, Netherlands	100%	100%

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

Changes in the Group's structure in the reporting period

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

In 2018 there were no changes of the group structure.

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS EU"). It was authorised for issue by the Group's Management Board on 24 April 2019.

Details of the Group's accounting policies, are included in Note 4.

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

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.

Standards, amendments to standards and interpretations that have been endorsed by European Union but are not effective for the annual periods beginning as of 1 January 2018:

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

- IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),

- Amendments to IFRS 3 "Business Combinations" - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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

IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 becomes effective for accounting periods beginning on or after 1 January 2019 and will supersede the current lease guidance including IAS 17 'Leases' and related interpretations: IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC 15 'Operating Leases – Incentives' and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.
The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position of the lessees, and providing corresponding information to the users of the financial statements about the risks associated with the agreements. In contrast to a lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
The Group 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 Group 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 Group accounts for leases previously classified as operating leases under IAS 17.
On initial application of IFRS 16, starting 1 January 2019 the Group 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 Group's incremental borrowing rate at the date of initial application which is calculated based on cost of external financing available for the Group. The incremental borrowing rate has been defined separately for East and West segment agreements portfolio and for the portfolios of agreements with similar leasing length.
The Group 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 Group 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 Group 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 Group has non-cancellable operating lease commitments of EUR 45 435 thousand (Note 27).

Performed assessment indicates that the Group will recognise a right-of-use asset of EUR approx. 33.4 million (including EUR 1.8 million resulting from reclassification of perpetual usufruct from land to right-of-use asset) and a corresponding lease liability of approx. EUR 33.4 million. 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. EUR 9.0 million, to increase depreciation by approx. EUR 8.4 million and to increase interest expenses by approx. EUR 1.2 million.
In Note 27 the Group presented the operating lease payments outstanding as at 31 December 2018 in total amount of EUR 45.4 million. The difference to the lease liability value recognised as at 1 January 2019 results from short-term and low-value agreements exemptions described above as well as impact of discounting.
Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reclassify cash outflows of approx. EUR 9.0 million from operating to financing activities.

Performed assessment indicates that approximately EUR 4 million of all leasing arrangements relate to short-term leases and leases of low-value assets as well as other services connected with leasing and not accounted for right-of-use asset therefore will be recognised directly as leasing costs in year 2019.

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

b) Adoption of new and revised standards

IFRS 9 "Financial instruments"

The Group has implemented IFRS 9 starting from 1 January 2018 applying restrospective modified approach without restatement of comparative information. The impact on the consolidated financial statements is described below. Due to the insignificant impact of the new standard the results were not reflected in retained earnings as at 1 January 2018.

Classification and measurement

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

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

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

- financial assets measured at amortised cost.

The Group 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.

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.

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

Trade receivables

The Group, based on factoring agreements, sells part of its receivables which, under the evaluation of assets in terms of classification pursuant to IFRS 9, are held within the business model whose objective is both to collect contractual cash flows and to sell the receivables, which results in the measurement of these assets to fair value. With respect to the balance of receivables in the amount of EUR 3 140 thousand, which as at 31 December 2018 were not yet transferred to factoring, fair value was set as the carrying amount of these receivables due to the short period between the balance sheet date and the receivables sale date.

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

Impairment

IFRS 9 introduces a new approach for the estimation of losses on financial assets measured at amortised cost. This approach is based on estimating expected losses, unlike in the model from IAS 39 which is based on the concept of incurred losses.

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.

Hedge accounting

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

As at 31 December 2018 the Group held 21 open forward contracts with a nominal exposure amounting to EUR 21 000 thousand.

The Group decided to continue to apply hedge accounting rules pursuant to IAS 39, thereby refraining from the implementation of hedge accounting rules arising from IFRS 9.

The total impact on the financial statements as at 1 January 2018 is presented in the table below (all amounts in EUR thousand):

Financial instrument	Classification		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Long term investments	Loans and receivables	Measured at amortised cost	511	511
Trade receivables subject to factoring agreements	Loans and receivables	At fair value through profit or loss	4 155	4 155
Trade receivables not subject to factoring	Loans and receivables	Measured at amortised cost	3 168	3 168
Other receivables	Loans and receivables	Measured at amortised cost	28 350	28 350
Cash and cash equivalents	Loans and receivables	Measured at amortised cost	83 845	83 845
Other short term financial assets	Loans and receivables	Measured at amortised cost	326	326

IFRS 15 "Revenue from contracts with customers"

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

The Group performed the analysis of the impact of IFRS 15 on its revenue recognition principles. The purpose of the analysis was to identify the significant contracts that could potentially have elements affecting the timing of revenue recognition or the amount of revenue during the reporting period, particularly with respect to trade bonuses and additional services. Due to the fact that 98.7% of Group's revenues are derived from sale of goods, the Group determined that their performance obligations would be fulfilled upon delivery or other transfer of significant risks of ownership – similar to the currently existing policies. Due to the fact that Group typically is not a party to any multiple delivery arrangements where contracted values would differ from fair values, the selling prices of each product are best estimates of fair values of each element in such transactions. Therefore there is no material impact of IFRS 15 on Group's revenue recognition practices.

c) Basis of accounting

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

d) Functional and presentation currency

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

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

e) Estimates and judgements

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

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

Judgements

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

- Note 19 – Derecognition of trade receivables covered by factoring arrangements – based on analysis of risk and benefit transfer, control retention and degree of involvement.

Assumptions and estimation uncertainties

- Notes to the annual consolidated financial statements, Note 4, Section d (v), e (iv) – useful lives of property, plant and equipment and intangible assets – determined based on estimated useful lives of property, plant and equipment and intangible assets and verified at least annually,
- Notes 6, 13 – Goodwill, recoverable amount of non-financial non-current assets – if there is an impairment, the recoverable amount is determined as the higher of fair value less cost to sell or value in use (based on discounted cash flows),
- Note 16, 17 – Corporate income tax and government grants receivables – recognition of deferred tax assets; availability of future taxable profit against which carryforward tax losses can be used; availability of future taxable profit against which government grants receivables can be realized,
- Note 23 – Measurement of liabilities under defined employee benefit plans – employee benefits are evaluated by an actuary. The valuation is based on assumptions regarding interest rates, remuneration increase, inflation rate, and employment turnover,
- Notes 24, 31 – Provisions and contingent liabilities - recognition of provisions and contingent liabilities requires the estimation of the probable outflow of economic benefits and making the best estimate of expenditure required to settle the present obligation at the end of reporting period,
- Note 26 – Valuation of financial instruments – fair value of financial instruments is measured using valuation models for financial instruments.

Measurement of fair values

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

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

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

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

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

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

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

- Note 26 – financial instruments.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

(i) Business combinations

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

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

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

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

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

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

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until to the date control ceases.

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

b) Foreign currencies

(i) Foreign currency transactions

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

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

Non-monetary assets and liabilities presented in foreign currencies valued at historical cost are translated at exchange rates effective as at the transaction date.

Foreign exchange gains or losses resulting from settlements of transactions in foreign currencies and from the conversions of monetary assets and liabilities denominated in foreign currencies are recognized in profit/loss of the current period.

(ii) Foreign operations

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

(iii) Net investments in foreign operations

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

(iv) Exchange differences on translation to presentation currency

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

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

	31 Dec. 2018	31 Dec. 2017
PLN	4.3014	4.1770
USD	1.1450	1.1993
GBP	0.8945	0.8872
RUB	79.7153	69.392
CHF	1.1269	1.1702
RON	4.6635	4.6585

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

	31 Dec. 2018	31 Dec. 2017
PLN	4.2604	4.2565
USD	1.1816	1.1292
GBP	0.8848	0.8761
RUB	74.0580	65.8784
CHF	1.1550	1.1115
RON	4.6541	4.5691

c) Financial instruments – classification and valuation

(i) Non-derivative financial instruments

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

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

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

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

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

IFRS 9

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

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

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

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

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

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

Non-derivative financial liabilities

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

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

The Group's financial liabilities measured at amortised cost comprise borrowings and other debt instruments as well as trade and other payables.

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

(ii) Derivative financial instruments

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

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

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

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

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

Cash-flow hedges

If a derivative financial instrument is designated as a cash flow hedge against a specific risk connected with a recognised asset, liability or a highly probable forecast transaction which could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as a separate hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

If a hedging instrument no longer meets the criteria of hedge accounting, expires, is sold, terminated, exercised, or its purpose changes, then the Group ceases to apply hedge accounting. If a forecast transaction is no longer expected, the gains and losses recognised in equity are transferred to the profit or loss of the period.

d) Property, plant and equipment

(i) Owned property, plant and equipment

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

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, less any deductible taxes: VAT and excise tax), public charges (in the case of imports), and costs directly related to the purchase and adaptation of the asset for use, including the cost of transport, loading, unloading and storage. Rebates, discounts and other similar reductions decrease the asset acquisition cost. The production cost of property, plant and equipment or a tangible asset under construction comprises all expenses incurred by a Group to construct, install, adapt or improve such assets, including non-deductible VAT or excise tax, until the day on which the asset was available for use in a manner intended by the management. The production cost also comprises the estimated cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such an obligation exists. Additionally, the production cost includes borrowing costs associated with the acquisition or production of an item of property, plant and equipment or a tangible asset under construction.

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

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

(ii) Reclassification to investment property

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

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

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

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

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

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

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

(iv) Subsequent expenditure

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

(v) Depreciation

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

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

Buildings	10 - 40 years
Plant and equipment	1.5 - 30 years
Vehicles	3 - 20 years
Other tangible assets	3 - 20 years

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

e) Intangible assets

(i) Goodwill

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

Goodwill is recognised on the date of obtaining control as:

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

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

(ii) Other intangible assets

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

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

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation of intangible assets is calculated using the straight-line method over their estimated useful lives, unless their useful economic lives are indefinite and is generally recognised in profit or loss. Goodwill and intangible assets with indefinite useful life are not amortised and are subject to impairment testing at the end of each financial year or more frequently if events or circumstances indicate potential impairment. Other intangible assets are amortised from the date that they are available for use.

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

Licences	1 - 7 years
Computer software	2 - 7 years
Customer relationships	8 years
Entitlement to beneficial EEG remuneration	1 - 7 years
Order backlog	1 year

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

f) Investment property

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

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

g) Inventories

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

The cost of inventory is determined in the following manner:

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

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

h) Impairment

(i) Non-derivative financial assets

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

Impairment losses are recognised in profit or loss and reflected in an allowance account.

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

IAS 39 (till 31 December 2017)

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

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

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

IFRS 9 (from 1 January 2018)

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

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

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

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

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

(ii) Non-financial assets

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

The recoverable amount of an assets or cash-generating units (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

Impairment loss in respect of goodwill is not reversed. For other assets, at the end of each reporting period impairment losses recognised in prior periods are reviewed to determine if there is any evidence that they no longer exist or have decreased. An impairment loss recognised in prior periods is reversed if the estimates used to determine the asset's recoverable amount have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Equity

(i) Ordinary shares

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

(ii) Dividends

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

j) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

The Group is required to withhold and pay contributions for future pension benefits of its employees, under applicable regulations. The defined contribution plan relates to the government program financed with contributions paid by the Group and by an employee to a pension fund. In connection with the above, the Group's liabilities for each period are recognised based on the contributions payable in a given period.

(iii) Defined benefit plans

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

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

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

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

(iv) Other long term employee benefits

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

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

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

All changes between the balance of employee benefit obligations as at the beginning and the end of a reporting period, other then benefits paid are recognised in other comprehensive income.

k) Provisions

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

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

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

Carbon dioxide emission rights are not recognized in the statement of financial position when granted nor in the subsequent periods. The fees for the issuing of rights are recognized as an expense in profit and loss in the period in which are incurred.

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

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

l) Income

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

IFRS 15 (from 1 January 2018)

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

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party's rights regarding the goods orservices to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession
- the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

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

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

(ii) Government grants

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

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

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

m) Operating lease payments

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

n) Net finance income and costs

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

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

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

o) Income tax

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

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

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

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

Deferred tax asset is not recognised for:

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

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

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

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

p) Earnings/(Loss) per share

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

q) Determination and presentation of operating segments

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

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

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

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

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

5 OPERATING SEGMENTS

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

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

For the year ended 31 December 2018:

'000 EUR	Western Europe	Eastern Europe	Others / Consolidation	Group
External revenues	**736 308**	**326 163**	**0**	**1 062 471**
Intersegment revenues	**21 432**	**81 481**	**-102 913**	**0**
Profit/loss before income taxes	23 184	783	245	24 212
Net financing cost	17 924	12 700	-74	30 550
Result from operating activities (EBIT)	**41 108**	**13 483**	**171**	**54 762**
Depreciation and amortisation	58 516	20 587	-101	79 002
Segment earnings EBITDA	**99 624**	**34 070**	**70**	**133 764**
Cash and cash equivalents	-15 190	-18 305	0	-33 495
Current financial liabilities	1 979	4 232	0	6 211
Non-current financial liabilities	425 875	0	0	425 875
Net debt	**412 664**	**-14 073**	**0**	**398 591**
Receivables before factoring	45 851	49 992	0	95 843
Inventories	68 643	47 649	0	116 292
Liabilities	-47 987	-52 290	0	-100 277
Net working capital before factoring	**66 507**	**45 351**	**0**	**111 858**
Segment capital expenditure	**49 110**	**31 381**	**0**	**80 491**
Property, plant and equipment	377 372	181 215	0	558 587
Intangible assets	68 644	10 535	0	79 179
Goodwill	29 804	36 988	0	66 792
Advances paid on fixed assets	6 263	1 789	0	8 052

For the year ended 31 December 2017:

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

Geographic information

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

COUNTRY '000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Germany	462 818	423 321
Poland	253 022	241 100
Great Britain	58 951	62 534
Netherlands	41 129	40 539
France	37 325	35 250
Italy	25 909	24 087
Switzerland	21 301	21 637
Austria	19 312	18 872
Sweden	18 747	19 564
Lithuania	15 635	18 410
Czech Republic	13 133	14 045
Norway	13 119	9 756
Denmark	9 918	8 747
Belgium	9 083	11 806
Russia	8 052	7 201
Slovakia	7 538	7 607
Hungary	5 511	4 573
Romania	4 311	4 415

Latvia	3 893	3 659
Estonia	3 789	2 733
Finland	3 567	2 766
Ireland	2 488	2 162
Slovenia	2 484	2 665
Australia	2 220	2 060
South Africa	1 969	1 587
Croatia	1 679	1 442
Ukraine	1 556	1 432
Spain	1 173	1 167
Belarus	981	792
Bosnia-Herzegovina	929	928
Portugal	823	690
Japan	754	1 069
U.S.A.	748	519
Bulgaria	711	998
Moldova	615	588
New Zealand	523	556
Others	6 754	5 118
TOTAL	1 062 471	1 006 395

Products and Services

SALES PRODUCTS '000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Raw particleboard	194 972	183 503
Raw MDF/HDF	114 661	101 374
Lacquered board	34 486	30 173
Melamine faced board	463 026	459 679
HPL	78 320	74 956
HPL elements	86 358	79 654
Others	73 166	60 642
Sale of products	**1 044 989**	**989 981**
Electricity	35 802	33 909
Scrap	6 364	5 964
Freight outs	8 065	7 044
Other	2 200	1 783
Sales reductions (1)	-34 949	-32 286
Others incl. sales deductions	**17 482**	**16 414**
TOTAL	**1 062 471**	**1 006 395**

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

The revenues presented in the statatement of profit and loss refers solely to revenues from contracts with customers recognised according to IFRS 15.

Information about major customers

In 2018 and 2017 no leading customers were identified in the Group, for which turnover would exceed 10% of Group's total revenue.

6 Goodwill

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

'000 EUR	31 Dec. 2018	31 Dec. 2017
Core West	29 804	29 808
Core East	36 988	37 733
TOTAL	66 792	67 541

Impairment test of cash generating unit containing goodwill

CGUs in Pfleiderer Group

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

The above reorganization allows the Pfleiderer Group companies to better use the market opportunities, including through the introduction of innovations and diversification of the product portfolio, optimization of operating costs, integration and optimization of the product offer and elimination of doubled functions
Beginning of 2017 SAP system was rolled over from Core West to Core East segment, which enabled to implement all unified processes across East business (copied from West business). The Group has one management board, which focuses on geographical management (CE/CW). All administration functions are centralized. Sales are done centrally by 2 distribution entities: Pfleiderer Deutchland GmbH for Core West and Pfleiderer Polska Sp. z o.o. for Core East.

Within the new approach CE and CW segment have both separately:
Revenues:

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

Assets:

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

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

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

For the purposes of impairment testing goodwill is allocated to groups of CGUs representing operating segments before aggregation. Additionally as a result of past acquisitions certain element of goodwill (EUR 25 137 thousand) are allocated to one of the CGUs Core East.

The Group recognised as a result of acquisition in 2016 additional goodwill amounting to EUR 41.5 million that was allocated to the group of CGUs, which are Core West (West Europe) (72%) and Core East (East Europe) (28%).

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

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

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

Segment Core West

- terminal growth rate beyond the five-year period covered by the budget – 1%;
- risk free rate – 0.37%;
- market risk premium – 6.00%
- discount rate – 6.48%.

Segment Core East

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- risk free rate – 2.81%
- market risk premium – 6%
- discount rate – 8.70%.

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

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

The sensitivity analysis indicated that the recoverable amount will be equal to the carrying amount if any of the assumptions listed below changes individually assuming that other assumptions remain unchanged:

- EBIT decrease by 49.85% for Core West and 52.5% for Core East;
- Discount rate increase by 12.73 p.p. for Core West and 11.1 p.p. for Core East.

7 Other operating income

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Profit on sale of property, plant and equipment	38	27
Release of bad debt allowance (see Note 26a)	788	1 440
Compensation and penalties received (a)	835	3 322
Rental income	193	194
Derecognition of EEG liability (b)	0	4 363
Release of unused accruals and deferred income	799	1 577
Other, including:	3 252	5 109
Government grants and public assistance (see Note 17)	*543*	*1 037*
Sales of excess CO2 emission rights	*385*	*1 414*
Operational management of sewage treatment plant Baruth	*450*	*450*
Income from forward contracts	*107*	*0*
Indemnity	*2*	*222*
Refund for electricity tax	*128*	*31*
Proceeds from the sale of scrap	*311*	*263*
Sale of diesel	*183*	*151*
Sale of samples	*0*	*189*
Other income	*1 143*	*1 352*
TOTAL	5 905	16 032

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

8 Other operating cost

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Loss on disposal of property, plant and equipment	239	159
Allowance for receivables (see Note 26a)	750	2 640
Bad debt loss (a)	161	2 651
Loss on foreign exchange differences	388	494
Damages paid	0	308
Change of investment property value	17	73
Other - including:	7 158	10 808
Provision for OCCP penalty and related costs	*0*	*9 088*
Court proceedings costs (see Note 24)	*1 552*	*0*
Consulting (b)	*5 486*	*1 127*
Costs related to restructuring of the Group	*0*	*257*
Other expenses	*120*	*336*
TOTAL	8 713	17 133

a) Loss relating to insolvency of customer. Compensation received recorded within other operating income – please see Note 7.
b) Consulting costs for year 2018 include mainly: consulting costs for improvement projects (EUR 4 464 thousand) and advisory costs regarding litigation matters (EUR 837 thousand).

9 Finance income and expenses

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Interest income	288	49
Revaluation of HYB bonds (1)	0	8 078
Financial income	**288**	**8 127**
Interest expense (2)	-21 342	-23 804
Refinancing costs	-2 145	-1 350
Redemption fee (3)	0	-6 334
Other finance costs	-2 652	-3 213
Financial costs	**-26 139**	**-34 701**
Exchange differences on translating foreign operations (4)	-4 699	10 859
Other financial result	**-4 699**	**10 859**
TOTAL	-30 550	-15 715

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

(2) The interest expenses include:
- interests for long term bank loan (TLB) – EUR 17 465 thousand for 2018 (EUR 5 950 thousand for 2017)
- interests for Senior Secured Notes (HYB) - EUR 0 thousand for 2018 (EUR 14 738 thousand for 2017)
- other interest expenses (insurance/factoring interests) – EUR 3 877 thousand for 2018 (EUR 3 116 thousand for 2017)

(3) Redemption fee relates to faster repayment of Senior Secured Notes – see point (1)

(4) Exchange differences of EUR 4.7m – costs (income EUR 10.9m for 2017) relate to subsequent valuation of intra-group loan nominal currency (EUR) to functional currency (PLN) at the reporting date.

10 Expenses by nature

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Raw materials and consumables used	612 073	568 099
Depreciation and amortisation	79 002	73 872
Services	115 296	112 755
Taxes and charges	4 518	4 517
Employee benefit expense	189 922	185 483
Other costs	25 412	24 836
Total cost	**1 026 223**	**969 562**
Change in inventories of finished goods and accruals and deferrals	-19 402	-9 645
Work performed by entity and capitalised	-1 920	-704
Total operating expenses	**1 004 901**	**959 213**
including:		
Distribution expenses	131 695	131 787
General and administrative expenses	49 627	60 507
COST OF SALES	823 579	766 919

11 Employee benefits cost

'000 EUR	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Salaries and wages	155 436	154 478
Social security contributions	29 124	29 778
Change in jubilee rewards	184	139
Change in retirement benefit obligations	319	485
Change in unused holiday accrual	-112	-64
Change in bonus accrual	1 653	-1 848
Change in other personell accruals	1 621	1 094
Other	1 696	1 421
TOTAL	189 922	185 483

In 2017 the Group started a share based payments programme for selected members of the Management Board and Supervisory Board (the "Managers"). The programme assumes that the Managers will receive options to purchase shares in Pfleiderer Group S.A. in case certain targets are met (for details please see Note 32). The programme was classified as equity settled share based payment.
According to the principles of the programme the Members of Management Board and Supervisory Board will be granted call option to purchase shares in case certain targets specified in the contracts are met. The consideration for which the Managers will be entitled to purchase the shares (option exercise price) will be PLN 30 per share for Supervisory Board Members and PLN 40 per share for Management Board Members (for details regarding the conditions of the programme please refer to Note 32).
The fair value of the options was calculated using the Monte-Carlo Simulation model. The price of shares at grant date in the model was taken to be PLN 39.45 based on market price of the share as of 15 September 2017, the volatility estimated at 33%, which is a Bloomberg implied volatility estimate for a call option (five years to maturity, at the money) on the Pfleiderer stock at the valuation date.
The fair value of the options amounts to EUR 1 438 thousand. In the year ended 31 December 2018 the Group recognised an expense related to the programme of EUR 535 thousand (for year 2017: EUR 45 thousand) - in the position Salaries and wages in the above table.

12 Income tax expense

'000 EUR	NOTE	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Income tax expense			
Current portion of income tax		-15 071	-10 882
Tax for previous years		-2 826	-2 061
		-17 897	**-12 943**
Deferred income tax			
Relating to origination and reversal of temporary differences		735	-1 429
Use of tax loss carry forward asset		-1 145	1 145
	17	**-410**	**-284**
TAX EXPENSE RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT AND LOSS		-18 307	-13 227

The amount of tax paid presented in the consolidated statement of cash flows for year 2018 (EUR 27 014 thousand) includes apart from taxes paid for the current year (EUR 9 400 thousand) also taxes for years 2016 and 2017

(EUR 11 200 thousand) as well as tax resulting from the tax audit in Germany for years 2010-2015 (EUR 6 414 thousand).

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

'000 EUR		1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Profit before tax		**24 212**	**30 423**
Tax at domestic rate	**19.00%**	**-4 600**	**-5 780**
Effect of foreign tax rates	9.14%	-2 212	-1 742
Tax effect of permanent differences:	14.69%	-3 556	-4 481
Non-tax-deductible expenses	6.49%	-1 571	-328
Penalties	-	0	-1 604
Other permanent differences	8.20%	-1 985	-2 549
Tax exempt revenue	-4.85%	1 175	326
Tax liability for previous years	11.67%	-2 826	-2 061
Other	4.34%	-1 051	891
Write off of deferred tax asset	21.63%	-5 237	-380
INCOME TAX DISCLOSED IN THE CONSOLIDATED INCOME STATEMENT		-18 307	-13 227
Effective tax rate		**76%**	**43%**

(all amounts in EUR thousand)

13 Property, plant and equipment

Gross value	Land and buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan. 2017	**231 603**	**493 733**	**13 649**	**32 968**	**771 953**
Increases	595	16 101	1 375	50 832	68 903
Disposals	-28	-2 084	-174	0	-2 286
Transfers	3 531	19 889	397	-34 875	-11 058
Currency translation adjustment	4 531	12 216	399	814	17 960
31 Dec. 2017	240 232	539 855	15 646	49 739	845 472
1 Jan. 2018	**240 232**	**539 855**	**15 646**	**49 739**	**845 473**
Increases	858	23 324	1 206	52 676	78 064
Disposals	-103	-2 455	-279	0	-2 837
Transfers	7 694	47 120	1 421	-56 468	-233
Currency translation adjustment	-2 515	-7 113	-231	-2 703	-12 562
31 Dec. 2018	246 166	600 731	17 763	43 244	907 904

(all amounts in EUR thousand)

Accumulated depreciation and impairment losses	Land and buildings	Plant and equipment	Other	Tangible assets under construction	Total
1 Jan. 2017	**47 202**	**168 322**	**7 566**	**0**	**223 090**
Depreciation	11 030	48 339	1 948	0	61 317
Disposals	-11	-1 389	-151	0	-1 551
Transfers	44	-45	1	0	0
Currency translation adjustment	1 858	6 198	281	0	8 337
31 Dec. 2017	60 123	221 425	9 645	0	291 193
1 Jan. 2018	**60 123**	**221 425**	**9 645**	**0**	**291 193**
Depreciation	11 111	52 236	2 601	0	65 948
Disposals	-55	-2 274	-242	0	-2 571
Transfers	-10	-4	13	0	-1
Currency translation adjustment	-1 098	-3 980	-174	0	-5 252
31 Dec. 2018	70 071	267 403	11 843	0	349 317
Net value					
31 Dec. 2017	180 109	318 430	6 001	49 739	554 279
31 Dec. 2018	176 095	333 328	5 920	43 244	558 587

Leased plant and equipment

As at 31 December 2018 and 31 December 2017, the Group held no property, plant and equipment under finance lease agreements.

Property, plant and equipment under construction
Investment projects

In 2018 the Group continues a long-term investment program designed to align its production capacities to market needs and to enhance its cost effectiveness and productivity. The capital expenditures for the year ended 31 December 2018 were EUR 80 491 thousand (including advance payments) and EUR 76 343 thousand for 2017.

As at 31 December 2018, the Group has purchase commitments for the property, plant and equipment and intangible assets. These commitments relate to the signed agreements by the members of the Group with respect to future investments plans.

'000 EUR	31 Dec. 2018	31 Dec. 2017
Property, plant and equipment	18 811	27 783
Intangible assets	319	863
Commitment to purchase	19 130	28 646

Impairment of non-financial non-current assets

In 2018 the Management performed an impairment tests of non-financial non-current assets.

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

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

Core West Units

- terminal growth rate beyond the five-year period covered by the budget – 1%;
- risk free rate – 0.37%;
- market risk premium – 6%
- discount rate – 5.58%.

Core East Units

- terminal growth rate beyond the five-year period covered by the budget – 2%;
- risk free rate – 2.81%
- market risk premium – 6%
- discount rate – 7.40%.

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

The test did not identify any impairment of non-current assets as at the end of 2018.

14 Intangible assets

Gross value	Licences, computer software and other	Brand name (1)	Customer relationships (2)	Entitelment to beneficial EEG remuneration (3)	Order backlog	Total
1 Jan. 2017	**12 042**	**19 498**	**53 441**	**16 443**	**1 712**	**103 136**
Currency translation adjustment	169	0	0	0	0	169
Increases	777	0	0	0	0	777
Decreases	-10	0	0	0	0	-10
Reclassifications	11 058	0	0	0	0	11 058
31 Dec. 2017	24 036	19 498	53 441	16 443	1 712	115 130
1 Jan. 2018	**24 036**	**19 498**	**53 441**	**16 443**	**1 712**	**115 130**
Currency translation adjustment	410	0	0	0	0	410
Increases	6 995	0	0	0	0	6 995
Decreases	0	0	0	0	0	0
Reclassifications	1 773	0	0	0	0	1 773
31 Dec. 2018	33 214	19 498	53 441	16 443	1 712	124 308
Accumulated amortisation and impairment losses						
1 Jan. 2017	**7 345**	**0**	**6 680**	**4 308**	**1 712**	**20 045**
Amortisation	2 864	0	6 680	2 403	0	11 947
Decreases	63	0	0	0	0	63
Currency translation adjustment	168	0	0	0	0	168
31 Dec. 2017	10 440	0	13 360	6 711	1 712	32 223
1 Jan. 2018	**10 440**	**0**	**13 360**	**6 711**	**1 712**	**32 223**
Amortisation	3 970	0	6 680	2 403	0	13 053
Decreases	0	0	0	0	0	0
Currency translation adjustment	-147	0	0	0	0	-147
31 Dec. 2018	14 263	0	20 040	9 113	1 712	45 129
Net value						
31 Dec. 2017	13 596	19 498	40 081	9 732	0	82 907
31 Dec. 2018	18 951	19 498	33 401	7 330	0	79 179

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

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

- Customer relationships – the Group identified non-contractual customer relationships in two segments: “Handel” (retail partners defined as “premium partners” and individually addressed) and “Industrie” (Top Customers which are offered various dedicated services);
- Entitlement to beneficial EEG remuneration – the Core West units generate electricity, which is fed into the public electricity grid and remunerated based on the regulations of the German Renewable Energy Sources Act (“EEG”)

The remaining useful lives of the above described intangible assets as at 31 December 2018:

	Gross book value as of 31 Dec 2018	Remaining useful life (years)
Customer relationships Handel	37 727	5
Customer relationships Industrie	15 714	5
Beneficial EEG remuneration Baruth	8 841	4
Beneficial EEG remuneration Guetersloh	5 698	2

15 Investment property

As at 31 December 2018, the Group recognised investment property in the amount of EUR 843 thousand (PLN 3 624 thousand), 31 December 2017: EUR 850 thousand, (PLN 3 550 thousand).

Investment property comprises of land held in perpetual usufruct, located at Bolesławiecka Street in Wieruszów, with a total area of 2.7835 ha, which as at the end of 2018 was not used for production purposes, sale of goods, rendering of services or for administrative purposes, and was not intended for sale in the ordinary course of the Group's business.

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

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

As at 31 December 2018, according to the valuer's opinion, taking into account current market and economic conditions the fair value of investment property amounted to PLN 3 624 thousand, which equals to EUR 843 thousand (categorised as a Level 2 fair value).

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

16 Deferred income tax asset and liability

'000 EUR	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
		31 Dec. 2018			31 Dec. 2017	
Non-current assets						
Property, plant and equipment	4 761	50 469	-45 708	8 657	53 584	-44 927
Intangible assets	869	21 007	-20 137	43	17 356	-17 313
Investment property	0	109	-109	0	0	0
Securities	0	0	0	0	3	-3
Other assets	318	1 807	-1 489	502	2 434	-1 932
Other non-current financial assets	0	0	0	1	20	-19
Current assets						
Inventories	355	129	226	255	88	167
Other current financial assets	0	8	-8	0	0	0
Trade and other receivables	13 151	3 847	9 304	9 451	155	9 296
Fair value of hedging instruments	1	15	-14	0	0	0
Non-current liabilities						
Provisions	1 252	0	1 251	1 018	0	1 018
Financial debts	718	3 940	-3 222	900	5 414	-4 514
Other liabilities	14	0	14	77	0	77
Pension provisions	6 940	0	6 940	6 720	0	6 720
Current liabilities						
Trade and other payables	894	7 750	-6 856	1 304	10 609	-9 310
Employee benefit obligations	810	0	810	436	0	436
Fair value of hedging instruments	1	0	1	0	0	0
Total tax loss brought forward	0	0	0	1 145	0	1 145
Deferred income tax assets/liability	**30 084**	**89 081**	**-58 996**	**30 509**	**89 663**	**-59 154**
Write down of DTA up to the DTL amount	-249	0	-249	0	0	0
Deferred income tax assets and liability offset	-29 360	-29 360	0	-24 038	-24 038	0
TOTAL	475	59 721		6 471	65 625	

Changes related to temporary differences during the reporting period:

'000 EUR	1 Jan. 2018	Recognised in profit or loss	Recognised in OCI	Currency translation adjustment	31 Dec. 2018
Non-current assets					
Property, plant and equipment	-44 927	-781			-45 708
Intangible assets	-17 313	-2 824			-20 137
Investment property	0	-109			-109
Securities	-3	3			0
Other assets	-1 932	443			-1 489
Other non-current financial assets	-19	19			0
Current assets					
Inventories	167	59			226
Other current financial assets	0	-8			-8
Trade and other receivables	9 296	8			9 304
Fair value of hedging instruments	0	0	-14		-14
Non-current liabilities					
Provisions	1 018	233			1 251
Financial debts	-4 514	1 292			-3 222
Other liabilities	77	-63			14
Pension provisions	6 720	181	38		6 940
Current liabilities					
Trade and other payables	-9 305	2 157		292	-6 856
Employee benefit obligations	436	374			810
Fair value of hedging instruments	0	0	1		1
Total tax loss brought forward	1 145	-1 145			0
Write down of DTA up to the DTL amount	0	-249			-249
TOTAL	-59 154	-410	25	292	-59 246

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

17 Government grants receivable and deferred income under government grants

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

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

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

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

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

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

The Polish Minister of the Economy, in the decision dated 7 November 2014, deemed Pfleiderer MDF Grajewo

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

As at the end of 2017 and 2018 the company met all the significant requirements. The exemption is effective for subsequent years until the company recovers 50% of the capital expenditures of up to EUR 50 million, 50% of half of the amount of expenditures in excess of EUR 50 million and up to EUR 100 million, and 34% of half of the amount of expenditure in excess of EUR 100 million.

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

The value of the government grant realised in 2018 amounted to EUR 543 thousand. As of 31 December 2018 in relation to the updated budget of Pfleiderer MDF Grajewo Sp. z o.o., the Group reassesed government grant asset by the amount of EUR 1 916 thousand.

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

The table below presents the structure of the deferred income with espect to government grants and the amounts released to other income in 2018 and 2017.

Type of public assistance '000 EUR	Investment grant	Corporate income tax exemption	Total
1 Jan. 2017	2 951	15 489	18 440
Amortization	-196	-860	-1 056
Reassessment of government grants	0	-9 053	-9 053
Currency translation adjustments	165	865	1 030
31 Dec. 2017	**2 920**	**6 441**	**9 361**
1 Jan. 2018	2 920	6 441	9 361
Amortization	-192	-351	-543
Reassessment of government grants	0	-1 916	-1 916
Currency translation adjustments	-82	-141	-222
31 Dec. 2018	**2 646**	**4 033**	**6 679**
Non-current portion	2 456	3 796	6 252
Current portion	190	237	427
TOTAL	2 646	4 033	6 679

As at 31 December 2018, the Group performed an analysis and reassessment of the amount of government grants. Following the analysis, the Group revised the carrying amount of government grants in the form of a corporate income tax exemption. In 2018 the amount of the government grant assets and liabilities decreased by EUR 1 916 thousand. The amount of the government grant receivable of EUR 3 251 thousand represents the estimated corporate income tax relief based on the exemption for the future periods of the Group's operations in the SSEZ. The amount was estimated based on the updated budget projections approved by the Management Board in each year. Management Board adopted budget assumptions, which are a basis for the estimation of the government grants amount based on historical results and expectations as to market developments. The growth rate does not exceed the long-term average rate for the manufacturing sector in Poland. The estimated amount of government grants is not discounted.

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

'000 EUR	Government grant receivables
1 Jan. 2017	13 563
Realisation	7
Reassessment of government grants	-9 053
Currency translation adjustments	758
31 Dec. 2017	**5 275**
1 Jan. 2018	5 275
Realisation	0
Reassessment of government grants	-1 916
Currency translation adjustments	-108
31 Dec. 2018	**3 251**
Non-current portion	3 251
Current portion	0
TOTAL	3 251

18 Inventories

'000 EUR	31 Dec. 2018	31 Dec. 2017
Materials and merchandise	60 145	51 135
Semi-finished products and work in progress	1 354	1 749
Finished goods	54 733	42 849
Advances for deliveries	60	568
TOTAL	116 292	96 301

Inventories are presented in the consolidated statement of financial position at net realisable value, i.e. net of write-downs of EUR 9 449 thousand (31 December 2017: EUR 9 820 thousand).

19 Trade and other receivables

'000 EUR	31 Dec. 2018	31 Dec. 2017
Trade receivables	6 998	7 310
Trade receivables from related parties	19	13
Current prepayments and accrued income	1 012	764
Current VAT receivables	7 750	7 280
Other receivables	18 050	20 306
TOTAL	33 829	35 673

The amount of EUR 18 050 thousand of other receivables as at 31 December 2018 (EUR 20 306 thousand as at 31 December 2017) included, among others:

- EUR 11 689 thousand as at 31 December 2018 (EUR 14 257 thousand as at 31 December 2017) relates to factoring continuing involvement and represents the risk reserve of the factor;

- EUR 835 thousand as at 31 December 2018 (EUR 835 thousand as at 31 December 2017) in a bank account with restricted access for distribution to secured creditors of the insolvency proceedings (Core West);
- EUR 3 953 thousand as at 31 December 2018 (EUR 3 872 thousand as at 31 December 2017) receivables related to energy regulations refund.

As at 31 December 2018, trade receivables were reduced by impairment allowance of EUR 2 856 thousand (31 December 2017: EUR 3 013 thousand).

Trade and other receivables include the following financial receivables:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Trade receivables	6 998	7 310
Trade receivables from related parties	19	13
Other receivables	12 841	15 194
TOTAL	19 858	22 517

Factoring of receivables

As of 31 December 2018, the trade receivables sold as part of a West Europe ABCP (asset-backed commercial papers) transaction were derecognised, with the exception of certain purchase price reductions retained to minimize risk for the buyer of the receivables. The factoring program of East Europe takes place under a “non-recourse factoring” agreement in terms of which, with the exception of the deductible, the receivables sold were derecognized as of 31 December 2018.

East Europe (Core East)

As at 4 December 2017, a new factoring agreement with Bank Millennium S.A. was established and further amended in the course of the year 2018.

Agreements are concluded until further notice, whereas factoring limits are granted for 12 months and require respective yearly renewals.As at 31 December 2018, the terms of and credit limits under the agreements were as follows:

Factoree:	Expiry date:	Factor:	Limit:
Pfleiderer Polska Sp. z o.o.	indefinite term	Bank Millenium S.A.	PLN 280 000 thousand
Pfleiderer Silekol Sp. z o.o.	indefinite term	Bank Millenium S.A.	PLN 40 000 thousand

Securitization Program (Core West)

Pfleiderer Deutschland GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Heller Holz GmbH, JURA-Spedition GmbH and Pfleiderer Gütersloh GmbH are party to a securitization program arranged by Commerzbank Aktiengesellschaft through Silver Tower asset-backed commercial paper and medium-term note programs. The participation is, interalia, based on a receivables purchase and servicing agreement and substitute servicing agreements, all initially dated 15 October 2012 and amended from time to time.
The securitization program provides for financing volume of up to EUR 70.0 million in Core West for sold eligible receivables. As of 31 December 2018, under the securitization program in Core West, accounts receivables in the amount of EUR 37 million had been sold.

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

'000 EUR	31 Dec. 2018	31 Dec. 2017
Total trade receivables before derecognition of sold receivables	84 154	82 131
Receivables derecognised from the statement of financial position	-77 136	-74 808
Trade receivables	**7 018**	**7 322**

Factored receivables as at the end of the reporting period	83 663	78 898
Derecognised receivables	-77 136	-74 808
Receivables recognised in the statement of financial position up to the amount of continuous involvement	**6 526**	**4 090**

Settlement of factoring services		
Factored receivables as at the end of the reporting period	83 663	78 898
Payments made by customers, not passed to the factor	31 441	33 962
Other settlements with the factor - cash in transit	0	0
Payments received concerning receivables derecognised from the statement of financial position	-77 136	-74 808
Factoring liabilities as at the end of the reporting period	**37 967**	**38 052**

20 Equity

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

	31 Dec. 2018	31 Dec. 2017
Par value of share capital (PLN)	21 351 332	21 351 332
Number of shares at beginning of period (fully paid up)	64 701 007	64 701 007
Number of shares at end of period (fully paid up)	64 701 007	64 701 007
Par value per share (PLN)	0.33	0.33
Par value of share capital ('000 EUR)	6 992	6 992
Number of shares at beginning of period (fully paid up)	64 701 007	64 701 007
Number of shares at end of period (fully paid up)	64 701 007	64 701 007

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

a. Share capital

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

As at 31 December 2018 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.

The shareholder structure at the balance sheet date is as follows:

Shareholding structure	Number of share	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 OFE Aviva Santander	6 241 000	9.65%	6 241 000	9.65%
Treasury shares (*)	12 940 201	20.00%	12 940 201	20.00%
Other shareholders	13 862 096	21.42%	13 862 096	21.42%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

(*) In accordance with article 364 Paragraph 2 of the Commercial Companies Code the Company does not 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.

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

In accordance with the notifications received from shareholders, the following transactions took place in 2018 involving shares in 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 OFE 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 Company's General Meeting of Shareholders.

Announced treasury shares repurchase programme

Date of purchase	Number of purchased shares	Total price incl. costs (thousand PLN)
12 October 2017	3 235 050	152 701
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 purchased 3 235 050 treasury shares. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company on 20 September 2017. In addition the treasury shares were purchased in connection with the implementation of the treasury share repurchase programme approved under resolution of the Company's Annual General Meeting of the Shareholders dated 21 June 2017. The purchase price for the treasury shares amounted to PLN 47 per one share. The total price for all of the purchased shares amounted to PLN 152 047 350.

On 7 February 2018 the Company purchased 2 150 883 treasury shares. The purchase of the treasury shares was concluded based on an invitation to submit offers for the sale of the shares in the Company announced by the Company

on 18 January 2018. The purchase price for the treasury shares amounted to PLN 37.5 per one share. The total price for all of the purchased shares amounted to PLN 80 658 112.50.

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

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

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

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

The shareholder structure as of 24 April 2019 is as follows:

Shareholding structure	Number of share	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 OFE Aviva Santander	4 308 424	6.66%	4 308 424	6.66%
Treasury shares (*)	*12 940 201*	*20.00%*	*12 940 201*	*20.00%*
Other shareholders	15 794 672	24.41%	15 794 672	24.41%
TOTAL	64 701 007	100.00%	64 701 007	100.00%

*According to the information from last General Meeting of Shareholders

b. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs. For the financial year ended 31 December 2018 share premium remained at unchanged level of EUR 146 375 thousand.

c. Statutory reserve funds

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

In 2018, the Group transferred EUR 83 194 thousand from its from the statutory reserve funds to the Reserve for own shares.

d. Nature and purposes of reserves

(i) Revaluation reserve

Revaluation reserve includes the effects of the fair value measurement of land held in perpetual usufruct by a subsidiary

Pfleiderer Wieruszów Sp. z o.o. upon reclassification from property, plant and equipment to investment property.

Until 22 November 2010, the land was classified as agriculture land, and its fair value was estimated by an independent valuer at EUR 271 thousand. The land was initially recognized in the statement of financial position in the amount of EUR 126 thousand (PLN 540 thousand). The surplus between the book value and the fair value of land in the amount of EUR 145 thousand was recognised in the revaluation reserve.

(ii) Translation reserve

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

(iii) Hedging reserve

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

e. Retained earnings

The negative balance of retained earnings as at 31 December 2018 results from the distribution of profits from the Parent company received as dividends, which were generated before first consolidation by subsidiaries.

f. 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.

21 Earnings per share

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

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

Net profit of the owners of the Company attributable to ordinary shares for the financial year ended 31 December 2018 amounted to EUR 5 905 thousand, whereas net profit attributable to ordinary shares for the financial year ended 31 December 2017 was EUR 17 139 thousand.

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

Shares number (excluding treasury shares)	2018	2017
1 January	61 465 957	64 701 007
Shares buy-back 12 October 2017 (see Note 20a)	-	-3 235 050
Shares buy-back 7 February 2018 (see Note 20a)	-2 150 883	-
Shares buy-back 27 February 2018 (see Note 20a)	-11 000	-
Shares buy-back 24 August 2018 (see Note 20a)	-7 543 268	-
31 December	51 760 806	61 465 957
Weighted average shares number	56 837 183	63 991 955

	1 Jan – 31 Dec. 2018	1 Jan – 31 Dec. 2017
Basic and diluted earnings per share	0.10	0.27

22 Borrowings and other debt instruments

Non-current borrowings and other debt instruments:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Bank borrowings	425 875	336 155
TOTAL	425 875	336 155

Current borrowings and other debt instruments:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Current portion of bank borrowings	1 669	2 333
Other interest bearing liabilities	4 542	196
TOTAL	6 211	2 529

Other interest bearing liabilities refers mainly to overdraft facilities.

Bank loans

Senior Facilities Agreement – entered into force on 1 August 2017

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

tenor of seven years – fully drawn and Revolving Credit Facilities with a tenor of five years amounting to EUR 50 000 000 (Revolving Facility 1) and PLN 211 480 000 (Revolving Facility 2).

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

At the reporting date these Revolving Credit Facilities were drawn in cash for an amount of PLN 18 203 thousand and bank guarantees were issued within the Revolving Facility 2 for the total amount of PLN 6 265 thousand as well as Letters of Credit in an amount of EUR 797 thousand. The Revolving Facility 1 is partially drawn for bank guarantees of EUR 2 291 thousand and PLN 520 thousand (EUR 121 thousand) as well as Letters of Credit in an amount of EUR 5 040 thousand. Interest on cash drawings is accrued at EURIBOR (for EUR-drawings) plus margin, WIBOR (for PLN-drawings) plus margin, LIBOR (for drawings in other currencies) plus margin.

PFLEIDERER

Financings Core East (exluding factoring and operating leases)

					31 Dec. 2018			31 Dec. 2017		
LENDER	CURRENCY	INTEREST RATE	DURATION FROM	DURATION TO	CREDIT LIMIT EUR	DRAWN AMOUNT EUR	UNDRAWN AMOUNT EUR	CREDIT LIMIT EUR	DRAWN AMOUNT EUR	UNDRAWN AMOUNT EUR
Revolving Credit Facility (PLN)										
Bank Millennium S.A.	PLN	WIBOR + margin	1 Aug 2017	1 Aug 2022	20 410	4 232	16 178	18 930	-	18 930
Alior Bank S.A.	PLN	WIBOR + margin	1 Aug 2017	1 Aug 2022	18 332	-	18 332	18 878	-	18 878
Raiffeisen Bank Polska S.A.	PLN	WIBOR + margin	1 Aug 2017	1 Aug 2022	7 585	-	7 585	7 811	-	7 811
Guarantees Core East										
Bank Millennium S.A.	PLN		1 Aug 2017	1 Aug 2022	2 373	2 373		4 532	4 532	
bank guarantee/s issued in PLN					1 457	1 457		1 739	1 739	
bank guarantee/s issued in EUR					-	-		-	-	
Letter/s of Credit issued in EUR year-end [EUR 2.428.000]								2 792	2 792	
Letter/s of Credit issued in EUR actual [EUR 797.240]					917	917				
Limit of credit cards East										
Bank Millennium S.A.	PLN		1 Aug 2017	1 Aug 2022	465	-	465	479	-	479
TOTAL EAST Credit facilities					49 165	6 605	42 650	50 630	4 532	46 098

Financing Core West (excluding ABCP and operating leases)

							31 Dec. 2018			31 Dec. 2017	
LENDER	CURRENCY	INTEREST RATE	DURATION FROM	DURATION TO		CREDIT LIMIT	DRAWN AMOUNT EUR	UNDRAWN AMOUNT EUR	CREDIT LIMIT	DRAWN AMOUNT EUR	UNDRAWN AMOUNT EUR
Revolving Credit Facility (EUR)											
Alior Bank S.A.	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022		5 000	-	5 000	5 000	-	5 000
Bank of China	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022		10 000	-	10 000	10 000	-	10 000
Commerzbank AG	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022	*)	7 548	-	7 548	12 370	-	12 370
Deutsche Bank AG	EUR	EURIBOR + margin	1 Aug 2017	2 Aug 2018	**)	0	-	0	12 000	-	12 000
Goldman Sachs Bank USA	EUR	EURIBOR + margin	2 Aug 2018	1 Aug 2022	**)	15 000	-	15 000	0	-	0
Raiffeisen Bank Polska S.A.	EUR	EURIBOR + margin	1 Aug 2017	1 Aug 2022		5 000	-	5 000	5 000	-	5 000
<u>*Guarantees Core West*</u>											
Commerzbank AG	EUR		1 Aug 2017	1 Aug 2022		7 452	7 452	-	2 630	2 630	-
bank guarantee issued in EUR						2 291	2 291		2 257	2 257	
bank guarantee issued in PLN						121	121		373	373	
letter of credit issued in EUR						5 040	5 040				
Deutsche Bank AG (Ancillary – Guarantees)			1 Aug 2017	2 Aug 2018	**)	0	-	0	3 000	-	3 000
<u>*Other debt instruments*</u>											
Term Loan B (TLB)	EUR		1 Aug 2017	1 Aug 2024		445 000	445 000	-	350 000	350 000	-
TOTAL WEST Credit facilities						495 000	452 452	42 548	400 000	352 630	47 370

*) Total RCF-limit with Commerzbank AG is EUR 15m, adding cash-line and ancillary used for guarantees
**) Transfer/Assignment of RCF-participation from Deutsche Bank AG to Goldman Sachs Bank USA (EUR 15m) as per 2 August 2018

Liabilities under borrowings from related parties

On 30 January 2018 PCF GmbH, as the lender, and Pfleiderer Group S.A., as the borrower, entered into the upstream loan agreement amounting to EUR 15 000 thousand. A purpose of the loan was to provide a financing for a purchase of the treasury shares performed by the Pfleiderer Group S.A. The loan was granted on 2 February 2018 and subsequently on 6 February 2018, unused amount of EUR 6 000 thousand was repaid to the lender.

On 8 August 2018 PCF GmbH, as the lender and Pfleiderer Group S.A. as the borrower, entered into a loan agreement amounting to EUR 95 000 thousand. A purpose of the loan was to provide a financing for a continuation of purchase of the treasury shares performed by the Pfleiderer Group S.A. The loan was granted on 2 August in non-cash tranche in amount EUR 6 411 thousand to cover any commissions and bank fees and in cash on 20 August 2018 in amount EUR 88 589 thousand.

The loans are eliminated in the consolidated financial statement.

23 Employee benefit obligations

'000 EUR	31 Dec. 2018	31 Dec. 2017
Salaries and wages	4 584	4 849
Personal income tax	3 132	3 358
Social security	1 167	1 397
Social benefits fund	429	423
Retirement benefit obligation	52 244	53 618
Unused holiday accrual	1 755	1 885
Employee bonus accrual	8 866	8 434
Other personal liabilities	3 786	1 219
TOTAL	75 961	75 183
Non-current portion	52 072	53 389
Current portion	24 478	21 794
TOTAL	76 550	75 183

Core West:

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

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

'000 EUR	31 Dec. 2018	31 Dec. 2017
Defined benefit obligation (Core West)	49 607	51 082
Retirement bonuses long term (Core East)	2 466	2 307
Retirement bonuses short term (Core East)	172	229
TOTAL	52 244	53 618

Benefits disbursed under defined benefit pension plans in Germany are primarily a function of the number of years of an employee's service, the individual's age, and his or her salary. The costs and obligations arising under defined benefit pension plans are determined on the basis of actuarial reports prepared using the projected unit credit method. This method considers the services already performed by the employees in relation to the valuation date and also includes estimates with regard to future salary and pension trends. Within the reports drawn up for the valuation at 31 December 2018, the following assumptions were made for the defined benefit plans:

	31 Dec. 2018	31 Dec. 2017
Discount factor	1.80%	1.65%
Wage increase rate	2.50%	2.50%
Pension adjustment	1.80%	1.80%

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

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

The following table explains the change in the defined benefit obligation as reported in the consolidated financial statements as of 31 December 2018. There are no plan assets. The provision thus corresponded to the benefit obligation (shortfall).

'000 EUR	31 Dec. 2018	31 Dec. 2017
Initial recognition Core West	51 082	54 636
Current service cost	269	297
Interest expenses	818	888
Subtotal reported in the profit/loss for the period	1 088	1 185
Pension payments	-2 503	-2 357
Acturial gains and losses from changes to demographic assumptions	675	0
Acturial gains and losses from changes to financial assumptions	-962	-2 395
Experience based adjustments	227	13
Subtotal in other comprehensive income	**-60**	**-2 382**
Defined benefit obligation	49 607	51 082

The present value of the defined benefit obligation (DBO) not covered by plan assets as of the reporting date amounted to EUR 49 607 thousand (shortfall).

In 2018, the experience-based adjustments to benefit obligations amounted to EUR 227 thousand and the actuarial losses due to changes in financial assumptions amounted to EUR minus 962 thousand. According to the new Heubeck mortality tables the actuarial gains and losses from changes to demographic assumptions amounted to EUR 675 thousand.

At the end of the reporting period, the average maturity of the defined benefit obligation amounted to 12.8 years.

The benefit obligations were calculated based on the 2018 G Heubeck mortality tables.

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

'000 EUR	31 Dec. 2018	31 Dec. 2017
Effect on the defined benefit obligation		
Increase of the interest rate by 0.25%	-1 537	-1 628
Decrease of the interest rate by 0.25%	1 621	1 719
Increase of the future pensions by 0.25%	1 326	1 391
Decrease of the future pensions by 0.25%	-1 271	-1 332
Increase of the life expectancy of pension recipients by 1 year	3 019	3 082

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

Core East:

Retirement bonus and disability obligations

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

Every employee reaching the retirement age (60 years for woman, 65 years for men, based on the transitional regulations – signed by the Polish President on 19 December 2016), who has the required documented years of service, is entitled to receive retirement benefits. Employees with permanent work disability, with an entitlement to disability benefits under the social security scheme, are entitled to receive disability severance payments. The amount of retirement payment or disability severance payment is computed based on the employee's one-month pay. The amount of the bonus or severance payment increases proportionately following ten years of service at the Group at the rate of 10% of the base pay for each year of service in excess of ten years, and following 20 years of service at the Group – at the rate of 20% of the base pay for each year of service in excess 20 years. Pursuant to Art. 921 §1 of the Labour Code, retirement bonuses and disability severance payments must not be lower than the employee's one-month pay.

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

Assumptions used for calculation of the retirement bonus in the financial year ended 31 December 2018:

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

the generally available data and in-house analysis, the rate was set at a fixed level, regardless of age, years of service or sex. The model does not demonstrate significant sensitivity to slight changes of this parameter.

- The retirement age for women is 60 years/ men is 65 years (The law signed by the President on 19 December 2016 r., taking into account the transitional regulations).
- All benefits were calculated at the beginning of each calendar year, with the assumption that all of them are regularly distributed throughout the year.
- The increase in salaries and wages was assumed at 3,5% per annum for year 2019 and 3% per annum for each following year.
- The discount rate on future benefits was assumed at 2.98%.

24 Provisions

'000 EUR	1 Jan. 2018	Reclassification	Additions	Utilisation	Reversal	Currency difference	31 Dec. 2018
Non-current							
Severance payments	504	0	1 269	-297	-586	0	890
Other provisions	949	0	79	-19	0	-13	996
Total non-current	1 453	0	1 348	-316	-586	-13	1 886
Current							
Court proceedings (see Note 31)	3 150	0	1 550	0	0	0	4 700
OCCP penalty and related costs (1)	9 261	0	0	-403	0	-264	8 594
Restructuring costs (2)	3 144	0	0	-157	-1 849	0	1 138
Total current	15 555	0	1 550	-560	-1 849	-264	14 432
TOTAL	17 008	0	2 898	-876	-2 435	-277	16 318

'000 EUR	1 Jan. 2017	Reclassification	Additions	Utilisation	Reversal	Currency difference	31 Dec. 2017
Non-current							
Restructuring costs	1 926	-1 737	50	-147	-92	0	0
Severance payments	775	0	1 194	-21	-1 444	0	504
Other provisions	993	0	5	-69	14	6	949
Total non-current	3 694	-1 737	1 249	-237	-1 522	6	1 453
Current							
Court proceedings (see Note 31)	7 650	0	0	-3 900	-600	0	3 150
OCCP penalty and related costs (1)	0	0	9 261	0	0	0	9 261
Restructuring costs (2)	5 132	1 737	225	-2 926	-1 024	0	3 144
Total current	12 782	1 737	9 486	-6 826	-1 624	0	15 555
TOTAL	16 476	0	10 735	-7 063	-3 146	6	17 008

(1) For details regarding provision for OCCP penalty and related costs please see Note 31.

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

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

25 Trade and other payables

'000 EUR	31 Dec. 2018	31 Dec. 2017 restated
Trade payables	100 277	112 591
Liabilities under factoring agreements (Note 19)	37 967	38 052
Insolvency-related liabilities of PCF GmbH	7 748	7 748
VAT liabilities	1 118	898
Liabilities for capital expenditures	5 551	11 282
Other liabilities	17 933	17 825
TOTAL	170 594	188 396

Other liabilities as of 31 December 2018 comprised mainly of:

- real estate transfer tax liability related to the acquisition EUR 10 600 thousand (EUR 10 754 thousand as of 31 December 2017) - liability amounts to PLN 45 595 thousand and is revaluated at each reporting date
- provisions for the cost of emission rights EUR 1 941 thousand (EUR 718 thousand as of 31 December 2017)
- deferred income mainly referred to emission rights EUR 1 736 thousand (EUR 246 thousand as at 31 December 2017)
- other tax payables of EUR 445 thousand (EUR 2 718 thousand as of 31 December 2017) and
- other cost accruals of EUR 3 208 thousand (EUR 2 100 thousand as of 31 Dec 2017):
    - audit costs EUR 381 thousand (2017: EUR 421 thousand)
    - environmental protection costs EUR 374 thousand (2017: EUR 349 thousand)
    - legal advisory costs EUR 290 thousand (2017: EUR 410 thousand)
    - warranty costs EUR 179 thousand (2017: EUR 448 thousand)
    - other EUR 1 984 thousand (2017: EUR 472 thousand).

Trade and other payables include the following financial liabilities:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Trade payables	100 277	112 591
Liabilities under factoring agreements	37 967	38 052
Liabilities from capital expenditures	5 551	11 282
Other liabilities	770	2 002
TOTAL	144 565	163 927

26 Financial instruments

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

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

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

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

– credit risk

– market risk, including:
- foreign currency risk and
- interest rate risk

– liquidity risk.

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

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

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

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

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

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

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

a. Credit risk

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

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

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

The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Group operates a strict receivables management

policy, whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and factoring (Segment East) and ABCP program (Segment West). In 2018, approximately 95% of the Group's trade receivables were secured with insurances. In the event of insolvency of customers who have insurance coverage, compensation is paid by the insurer. Each customer has a trade credit limit (usually covered by an insurance limit).

The Group did not incur any significant losses due to customer default. Allowances for impairment losses are recognised on uninsured receivables and on amounts corresponding to the Group's deductibles for receivables that are insured, based on detailed impairment analysis of accounts receivable.

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

The total credit risk exposure was as follows:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Long term investments	490	511
Loans advanced and receivables	22 212	22 516
Cash and cash equivalents	33 495	83 845
TOTAL	56 197	106 872

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

	31 Dec. 2018	
'000 EUR	Gross value	Impairment loss
Not overdue	79 777	48
Overdue by:		
0 - 180 days	16 272	245
180 - 360 days	690	721
More than 360 days	2 599	1 843
Factoring	-77 136	n.a.
TOTAL trade receivables before deducting sales rebates	22 202	2 856

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

	31 Dec. 2017	
'000 EUR	Gross value	Impairment loss
Not overdue	85 441	0
Overdue by:		
0 - 180 days	10 144	1 965
180 - 360 days	199	352
More than 360 days	654	696
Factoring	-74 808	n.a.
TOTAL trade receivables before deducting sales rebates	21 630	3 012

Movements in the impairment allowance for trade receivables for the year 2018 and 2017 are presented below:

'000 EUR	2018	2017
Balance at the beginning of the period	**3 013**	**1 940**
Increase of the allowance (see Note 8)	750	2 640
Utilisation of the allowance	-73	-420
Release (see Note 7)	-788	-1 440
Currency translation adjustments	-46	293
TOTAL	2 856	3 013

b. Interest rate risk

The Group holds funds in bank accounts and has liabilities under bank borrowings and TLB. The Group also incurres costs of interests under factoring agreements. The interest rate risk is related to interest payments with floating interest rates. The Group does not hedge the interest rate risk for the time being.

The Group monitors the level of interest costs on a regular basis.

The table shows the Group's assets and liabilities generating interests income and expenses based on floating interest rates:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Financial assets	18 304	34 059
Financial liabilities	432 085	338 684
Variable-rate financial instruments	450 390	372 743

Sensitivity analysis of cash flows for variable-rate financial instruments

The below interest rates variations were calculated based on observations of interest rates fluctuations in 2018 and 2017.

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

	1 Jan 2018 – 31 Dec 2018		1 Jan 2017 – 31 Dec 2017	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Variable-rate financial instruments and effect on profit/(loss) before tax	-544	544	-836	836
Effect on equity excluding P&L affect	-	-	-	-

Sensitivity analysis of fair value of fixed-rate financial instruments

The group does not hold any financial assest or liabilities measured at fair value through profit or loss or any interest rate derivatives as hedging instruments.

Therefore a change in interest rates at the reporting date would not affect the statement of profit and loss and other comprehensive income through changes in the fair value of financial instruments.

c. Currency risk – transaction risks

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

pound sterling (GBP). However, foreign exchange gains or losses resulting from exchange rate fluctuations mostly offset each other (natural hedging).

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

Forward and swap contracts are measured at the end of each month.

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

	31 Dec. 2018			
'000 EUR	EUR	USD	PLN	GBP
Cash	17 210	28	29	0
Trade and other receivables	5 027	0	13	0
Trade and other payables, investment payables, factoring payables	-19 156	0	0	-67
Other liabilities	-10 600	0	0	0
Statement of financial positions exposure, gross	**-7 519**	**28**	**42**	**-67**
Transactions in derivate instruments:				
forward transactions	-21 000	0	0	0
TOTAL	-28 519	28	42	-67

	31 Dec. 2017 (restated)			
'000 EUR	EUR	USD	PLN	GBP
Cash	11 621	62	1 386	0
Trade and other receivables	19 363	18	13	970
Trade and other payables, investment payables, factoring payables	-18 554	0	0	0
Other liabilities	-10 754	0	0	0
Statement of financial positions exposure, gross	**1 676**	**80**	**1 399**	**970**
Transactions in derivate instruments:				
forward transactions	-17 700	0	0	0
TOTAL	-16 024	80	1 399	970

Sensitivity analysis for currency exchange rate changes

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

	31 Dec. 2018	
'000 EUR	5%	-5%
EUR	-98	98
USD	1	-1
PLN	2	-2
GBP	-3	3
EFFECT ON PROFIT/LOSS BEFORE TAX	-98	98
EFFECT ON EQUITY	-1 050	1 050

	31 Dec. 2017 restated	
'000 EUR	5%	-5%
EUR	84	-84
USD	4	-4
PLN	70	-70
GBP	49	-49
EFFECT ON PROFIT/LOSS BEFORE TAX	206	-206
EFFECT ON EQUITY	-885	885

The sensitivity analysis was based on the following exchange rates of the EUR against other currencies.

'000 EUR	31 Dec. 2018	31 Dec. 2017
EUR	1.0000	1.0000
RUB	79.7153	69.3920
PLN	4.3014	4.1770
USD	1.1450	1.1993
GBP	0.8945	0.8872

d. Liquidity risk

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

	31 Dec. 2018						
'000 EUR	Carrying amount	Contractual cash flows	below 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Overdraft facilities	4 232	4 232	0	0	0	4 232	0
Liabilities under borrowings and other debt instruments	427 853	574 730	11 434	11 372	22 621	67 924	461 378
Trade and other payables	144 565	144 565	144 546	2	3	8	6
TOTAL	576 650	723 527	155 980	11 374	22 623	72 164	461 385

	31 Dec. 2017						
'000 EUR	Carrying amount	Contractual cash flows	below 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Liabilities under borrowings and other debt instruments	338 684	445 822	7 039	7 156	14 350	42 777	374 500
Trade and other payables	163 927	163 927	163 921	5	0	1	0
TOTAL	502 610	609 749	170 960	7 161	14 350	42 778	374 500

As at 31 December 2018, the Group's debt outstanding under the bank borrowings and issued debt instruments was EUR 432 085 thousand, unused credit facilities amounted to EUR 85 108 thousand. The Group also held cash of EUR 33 495 thousand.

Liquidity and material cash-flow disruptions risk

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

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

e. Fair value of financial assets and liabilities

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

f. Valuation of financial assets and liabilities at fair value

As at 31 December 2018, the Group held 21 open forward contracts with a nominal exposure amounting to EUR 21 000 thousand. The fair value of the open contracts amounted to EUR 86 thousand (receivables) and EUR 16 thousand (liabilities), based on level 2 input factors.

As at 31 December 2017, the Group held 17 open forward contracts with a nominal exposure amounting to EUR 4 237 thousand. The fair value of the open contracts amounted to EUR 380 thousand (receivables), based on level 2 input factors.

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

g. Capital management

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

The key ratio used by the Group to monitor equity is the ratio of equity to total assets. At the end of 2018, the ratio decreased from 25.40 % to 15.42% due to shares buy-back programme.

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

'000 EUR	31 Dec. 2018	31 Dec. 2017
Equity	133 270	234 474
Total assets	902 167	944 483
Ratio = Equity/Total assets	14.77%	24.83%

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

Proper management of financial resources is a factor supporting the implementation of other management areas, including operational management, strategic and investment projects. This is done in the first place through regular financial projections of debt in the horizon of five years, and then arranging rhe appropriate sources of funding, in the form of bank loans, capital market instruments, factoring and ABCP program. Cash Management at Pfleiderer Group aims at optimizing the financial costs by minimizing cash and using cash surpluses to repay bank loans, which may at any time be re-used. The second cash management objective is to reduce the currency risk to which the Group due to the large export and import is exposed. Pfleiderer Group finances its operations through own funds as well as revolving credit facility and a so-called TLB (term loan B) – for details please see Note 22.

27 Operating lease agreements

The Group leases a number of production assets under operating leases and a property. The leases typically run for a period of 3-7 years and agreements will expire in 2019-2050 (leased land ends in 33 years).

The Group also leases vehicles and IT equipment under operating lease agreements. The leases typically run for 3-5 years and the agreements will expire in 2019-2022.

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

The costs incurred by the Group under the operating lease agreements in 2018 were EUR 12 466 thousand (in 2017: EUR 11 581 thousand).

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

'000 EUR	31 Dec. 2018	31 Dec. 2017
More than 5 years	21 126	22 962
From 1 to 5 years	15 403	15 401
Up to one year	8 906	8 399
TOTAL	45 435	46 762

28 Explanation of selected positions in Consolidated Statement of Cash flows

'000 EUR	1 Jan. – 31 Dec. 2018	1 Jan. – 31 Dec. 2017
Changes in:		
Trade receivables before factoring	-3 373	-3 652
Factored receivables	6 412	1 820
Prepaid expenses	-1 010	-126
VAT receivables	-470	-4 423
Other receivables	-104	-1 207
Trade and other receivables	**1 455**	**-7 588**

'000 EUR	1 Jan. – 31 Dec. 2018	1 Jan. – 31 Dec. 2017
Changes in:		
Trade payables	-10 864	30 831
Factoring liabilities	-85	4 304
Employee related payables	843	-2 524
Reduction of EEG liability	0	-4 363
Other liabilities	-388	384
Trade and other payables	**-10 495**	**28 632**

Interests paid presented in the consolidated statement of cash flow in the amount of EUR 18 130 thousand (EUR 28 327 thousand for year 2017) referred in 2018 solely to interests paid for long term loan (TLB). In the year 2017 the amount covered interests for long term loan (EUR 3 034 thousand) and Senior Secured Notes (EUR 24 710 thousand).

29 Correction of error

In the current financial statements the Group has corrected a material mistake contained in the 2016 Financial Statements concerning tax liability in relation to the real estate transfer tax.
In 2016 the Parent Company recognised a real estate transfer tax ("RETT") liability in the amount of PLN 22 245 thousand (equal to approximately EUR 5 400 thousand). The liability resulted from indirectly acquired certain real properties located in Germany in connection with intra-group restructuring and acquisition by the Company of a 100% share in Pfleiderer GmbH.
Following information from German tax authorities and an external analysis mandated by the Company, the management board became aware of the fact that the RETT liability should have been estimated at PLN 45 595 thousand. Consequently the management board decided to increase the liability in the standalone and consolidated financial statements and correct the material mistake by retrospective restatement.

The impact of the restatement on the consolidated statement of financial position is presented below:

'000 EUR	31 Dec. 2017	31. Dec. 2016
Trade and other liabilities		
According to the published financial statements	182 968	144 111
Correction of error	5 428	5 428
After restatement	**188 396**	**149 539**
Retained earnings		
According to the published financial statements	9 884	40 324
Correction of error	-5 428	-5 428
After restatement	**4 456**	**34 896**

30 Securities

Security

On 13 April 2017 the Group has finalized and signed refinancing agreements of EUR 450.0 million senior secured credit facilities comprising:
a EUR 350.0 million 7-year covenant-lite term loan B facility and
a EUR 100.0 million 5-year revolving credit facility, comprising of a EUR 50.0 million and PLN 211.48 million facility.
The proceeds from the Facilities have been used to redeem the EUR 321 684 000 senior secured notes issued by PCF GmbH (formerly Pfleiderer GmbH) ("Notes") in full, to refinance the existing senior secured revolving credit facility and to fund related transaction fees, redemption premium and expenses as well as for general corporate purposes and working capital requirements.
On 31 July 2018, the Senior Facilities Agreement originally dated 13 April 2017 was amended and restated. The total amount of senior secured term loan B increased by EUR 95 million from EUR 350 million to EUR 445 million, the volume of the Revolving Credit Facilities remains unchanged.

Security interests under the Senior Facilities Agreement originally dated 13 April 2017 (and having been amended and restated on 31 July 2018) (Polish entities)
In order to secure the new obligations under the senior facilities agreement originally dated 13 April 2017, and having been amended and restated on 31 July 2018, Pfleiderer Group S.A. on 1 August 2017 established the financial pledge and, subject to registration, the registered pledge over the shares in Pfleiderer Polska Sp. z o.o.

and granted the power of attorney to exercise corporate right from the pledged shares in favour of Trigon Dom Maklerski S.A. (the "Polish Security Agent").

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Pfleiderer Group S.A., PCF GmbH, Pfleiderer Deutschland GmbH as pledgors granted pledges over shares in PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH and Pfleiderer Baruth GmbH.
(ii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH as pledgors granted pledges over their major bank accounts.
(iii) PCF GmbH, Pfleiderer Deutschland GmbH, Pfleiderer Neumarkt GmbH, Pfleiderer Leutkirch GmbH, Pfleiderer Gütersloh GmbH, Pfleiderer Arnsberg GmbH, Pfleiderer Baruth GmbH as assignors assigned as security their receivables under the intercompany loans, material trade and insurance receivables.
(iv) The existing German land charges have been assigned to the New Security Agent.
Guarantees by the members of the Group

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

31 Contingent liabilities

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

Eastern Europe:

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

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

According to the Decision, the agreement was in force from the beginning of 2008 to 7 September 2011.
The President of the OCCP imposed a fine of PLN 15 958 thousand on Pfleiderer Group S.A. and PLN 19 805 thousand on Pfleiderer Wieruszów Sp. z o.o.
The Decision ended the antimonopoly proceedings initiated by the President of the OCCP in 2012. The decision is not legally final. On the 29 January 2018, the Company and Pfleiderer Wieruszów Sp. z o.o. appealed against the Decision to the Court of Competition and Consumer Protection.

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

Western Europe:
An earlier investigation by the German Federal Cartel Office in 2009 concluded in 2011 that PCF GmbH (then, Pfleiderer AG) and certain competitors had, for a period from at least 2004 through 2007, violated German competition law by coordinating price increases and minimum prices in the German market. As a result, the German Federal Cartel Office in September 2011 fined this group of market participants and certain individuals a total of EUR 42 million on the grounds of violating German and European competition laws by entering into anticompetitive agreements. PCF GmbH's share of the fine was settled in yearly instalments and fully repaid by the end of 2016.
As described below, two of the Pfleiderer Group's customers have sued the Pfleiderer Group for damages in connection with these antitrust violations. The companies are seeking compensation in connection with these antitrust violations. The outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Based on its best knowledge the Management estimated as of 31 December 2018 provisions related to court proceedings of EUR 4 150 thousand including costs related to legal proceedings with Classen as well as legal costs and amicable settlements of claims with Oeseder. Depending on the final outcome of the negotiations and/or the proceedings, the Group could be obligated to make further substantial payments.
There is a risk that additional follow-on claims for damages might be raised by third parties, including customers, against the Group in respect thereof. The amount of any such follow-on claims for damages cannot currently be determined with any certainty, but could be substantial. The realization of any of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.
In December 2012, Classen filed an action for damages with the regional court of Düsseldorf (Landgericht Düsseldorf) against Pfleiderer Baruth GmbH (then: Pfleiderer Faserplattenwerk Baruth GmbH) currently amounting to approximately EUR 55.4 million (plus interest). The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid, cannot be assessed yet. The court has released an indicative order dated 11 December 2018: According to the preliminary view of the court, the claim is justified on the merits but quantum still needs to be determined. Pfleiderer Baruth GmbH has argued against this indicative. On 14 February 2019 another oral hearing has taken place where a new German jurisdiction of the German Federal Court of 11 December 2018 has been discussed.The court now must come to a conclusion whether a judgment regarding the merits of the claim is possible without evaluating a possible damage. The next court decision is announced for April 18th 2019. As at 31 December 2018 the provision for accrued legal costs for Classen has been recognized by the Group in these consolidated financial statements and is comprised in the total amount of EUR 4 150 thousand.
In December 2012, Oeseder Möbel-Industrie Mathias Wiemann GmbH & Co. KG ("Oeseder"), one of the Pfleiderer Group's customers, filed an action for damages with the regional court of Hannover (Landgericht Hannover) against Sonae Arauco Deutschland AG (then: Glunz AG) amounting to approximately EUR 26 million (plus interest). The plaintiff claimed to have suffered damages due to the Chipboard Cartel. Following a third party notice (Streitverkündung) by Sonae Arauco Deutschland AG, PCF GmbH has joined the legal proceedings as an intervener (Nebenintervenient). The court has passed a judgement on 31 May 2016 according to which the claim is justified on the merits but subject to further discussion regarding quantum. Sonae Arauco Deutschland AG has filed an appeal against this decision with the higher regional court in Celle. A court meeting was held in March 2019. The outcome is difficult to predict; a new oral hearing will take place in August 2019.

As at 31 December 2018 the Management based on its best knowledge recognised a provision for the expected outcome, which is included in the total amount of EUR 4 150 thousand. PCF GmbH's obligation for substantial payments may result from a contribution claim (Gesamtschuldnerinnenausgleichsanspruch) based on PCF GmbH's joint and several liability (Gesamtschuld), if Sonae Arauco Deutschland AG or any other third party is obligated to pay compensation to Oeseder. The proceeding is still pending and the outcome, i.e. the further potential costs that may arise in connection with this litigation or the amount of damages that might be required to be paid could change significantly.

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

Moreover the Group has tax liabilities resulting from the tax audit for years 2010-2015 conducted in Germany. Like described in Note 12 "Income tax expense" most of this liability has already been paid in Q3 2018, so the remaining liability is amounting to EUR 1.6 million.

32 Key management personnel compensation

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

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

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

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

In addition, members of Pfleiderer Group S.A Management Board received the following short – term employee benefits for holding management positions at Pfleiderer Benelux B.V.:

'000 EUR	31 Dec. 2018	31 Dec. 2017
Ivo Schintz	334	38
TOTAL	334	38

As at the end of 2018 members of the Management held the following number of Pfleiderer Group shares:

- President of the Management Board Thomas Schäbinger - 16 750 Company shares

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

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

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

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

On 17 December 2018 Pfleiderer Group S.A. executed with Mr. Ivo Schintz the termination agreement, which terminates the contract between the parties with effect as of 31 December 2019. According to the termination agreement, Mr. Schintz is entitled to a severance payment of EUR 95 000, which also covers all claims to a bonus for the fiscal year 2019.
On 20 March 2019 PCF GmbH, a subsidiary of the Company, executed with Mr. Dirk Hardow a settlement agreement regarding a termination of the service contract of Mr. Hardow. The service contract is terminated with effect as of 30 April 2019. With respect to the early termination of the service contract, PCF GmbH will pay a severance payment to Mr. Hardow in the amount of EUR 180 000 gross.

Changes in the Management Board

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

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

On 17 December 2018 Pfleiderer Group S.A. executed with Mr. Ivo Schintz the termination agreement, which terminates the contract between the parties with effect as of 31 December 2019.

Events after the balance sheet date

On 20 March 2019 Mr. Dirk Hardow submitted a resignation from the Management Board of the Company. The resignation takes effect on 31 March 2019.
On the same day the Supervisory Board of the Company decided to appoint to the Management Board: Dr. Frank Herrmann as Chief Operating Officer and Mr. Stefan Zinn as Chief Commercial Officer. The above appointments take effect from 1 May 2019.

Long term incentive programme

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

On 18 October 2017 the Extraordinary General Meeting of Shareholders adopted a resolution regarding the determination of the terms of the long-term incentive programme for selected members of the Supervisory Board of the Company in the form determined by the Supervisory Board (the "Supervisory Board LTIP" and together with the Management Board LTIP, the "LTIP").
According to the terms of the LTIP, the Company will grant selected members of the Management Board and the Supervisory Board (the "Managers") the option to acquire existing shares in the share capital of the Company (the "Call Option Shares") in exchange for the exercise price per share multiplied by the number of the Call Option Shares to which each Manager is entitled (the "Call Option"). As a rule, the Managers will be entitled to receive the Call Option Shares if they remain a member of a respective governing body of the Company or their appointment as a member of the respective governing body of Company expires pursuant to certain conditions, including, in particular: (i) death; (ii) disability due to which the Manager is unable to perform his duties as a member of a respective governing body of the Company; or (iii) the lapse of the term for which the respective Manager was appointed as a member of the respective governing body of Company and the lack of election to a subsequent term of office for reasons other than for cause or occurance of a material breach of his obligations; or (iv) dismissal from the respective governing body of Company for reasons other than for cause or occurance of a material breach of his obligations.
The Call Option will be vested in six tranches. Each vested tranche will entitle each Manager to acquire, respectively, 5%, 5%, 7.5%, 10%, 22.5% and 50% (each defined as a "Tranche") of the overall number of the Call Option Shares to which each Manager is entitled if with respect to a given Tranche the price of the Company's shares reaches, respectively, PLN 40.00, PLN 47.00, PLN 55.00, PLN 63.00, PLN 70.00 and PLN 80.00 (the "Tested Share Price"). In the event that, during the term of 5 (five) consecutive years from the date of the adoption of the resolution regarding the Supervisory Board LTIP, the Tested Share Price for any of the respective Tranche has not been met and Call Option Shares related with such Tranche were not vested, the Manager shall irrevocably lose the right to acquire such Call Option Shares without the right to any compensation. The Tested Share Price constitutes: (i) the arithmetic average of the market price of the shares established on the basis of the daily volume-weighted average prices at the end of each period of 70 (seventy) consecutive trading days on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) through the whole term of the LTIP starting from 1 June 2017 (the "Share Price Test Period"), increased by the sum of all dividends paid or declared to be paid by the Company in the period from the date of the 2 adoption of the resolution regarding the Supervisory Board LTIP until respective Share Price Test Period divided by all of the shares in the Company's share capital; or (ii) the price received by any of the shareholders of the Company holding, individually or in aggregate in case of entities with respect to which their shareholding is aggregated pursuant to applicable securities regulations as at the date of the adoption of the resolution regarding the Supervisory Board LTIP, at least 10% of the shares in the share capital of the Company and the corresponding number of votes at the

general meeting of the shareholders of the Company (the "Significant Shareholders") as a result of the direct or indirect transfer by the Significant Shareholders, jointly, of such number of the shares which would result in decreasing their share in the overall number of votes at the general meeting of the shareholders of the Company below 10%, except in the event that one Significant Shareholder sells his shares to the other Significant Shareholder(s).
Each Manager will have the right to exercise each Tranche and acquire the respective number of the Call Option Shares within 3 (three) years from the date such Manager is informed by the Company that the Tested Share Price has been reached with respect to a given Tranche. The Company, at its sole discretion, may elect not to deliver to the Manager the Call Option Shares subject to the Call Option, but instead to satisfy its obligation with cash. As a rule, the Call Option Shares acquired by a Manager will be subject to lock-up for a term of 5 (five) consecutive years from the date of execution by the Manager of the respective agreement with the Company regarding the LTIP.

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.

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

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

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

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

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

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

Changes in Supervisory Board

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

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

Events after the balance sheet date

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

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

33 Events subsequent to the end of the reporting period

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

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

On 20 March 2019 Mr. Dirk Hardow submitted a resignation from the Management Board of the Company. The resignation takes effect on 31 March 2019.
On the same day the Supervisory Board of the Company decided to appoint to the Management Board: Dr. Frank Herrmann as Chief Operating Officer and Mr. Stefan Zinn as Chief Commercial Officer. The above appointments take effect from 1 May 2019.

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

There were no other significant subsequent events that should be disclosed in these consolidated financial statements.

Wrocław, 24 April 2019

Management Board of Pfleiderer Group S.A.

Thomas Schäbinger *President of the Management Board*	**Dr. Nico Reiner** *Member of the Management Board,* *Chief Financial Officer*