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MANAGEMENT REPORT

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

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LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

TOM K. SCHÄBINGER

PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

Dear Investors,

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

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

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

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

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

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

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

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

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

My best regards,

Tom K. Schäbinger

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

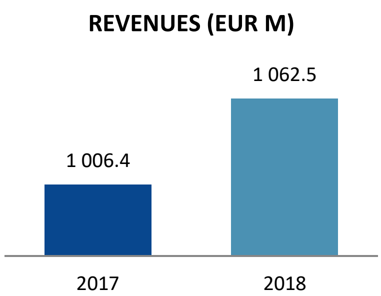
OUR VISION – FOR AN INTEGRATED PFLEIDERER GROUP IN EUROPE

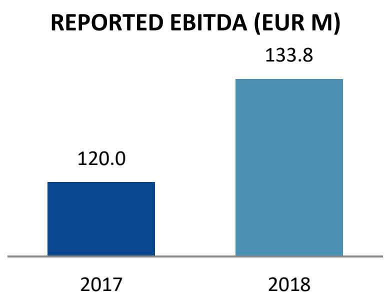
- We are a fully-integrated wood panel manufacturer with profitable growth and with value generation.
- We offer State-of-the-art decorative surface competence providing value and differentiation to customers.
- We offer operational excellence in supply chain and services to customers in the industry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

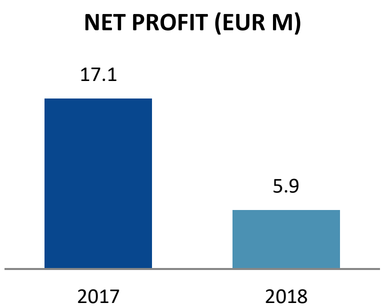
PFLEIDERER GROUP IN 2018 AT A GLANCE

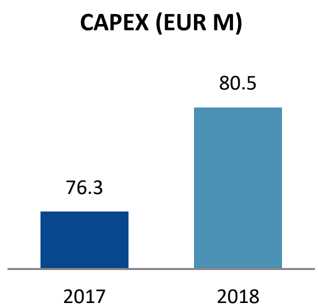
GOOD SET OF FINANCIAL RESULTS SUPPORTED BY FAVOURABLE MARKET CONDITIONS

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









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

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

Subsequent events

CHANGES IN THE MANAGEMENT BOARD

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

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

CHANGES IN SUPERVISORY BOARD

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

Q4, 2018

CHANGES IN THE MANAGEMENT BOARD

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

CHANGES IN SUPERVISORY BOARD

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

Q3, 2018

BUY BACK

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

AMENDMENTS TO EXTERNAL FINANCING

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

Q2, 2018

DIVIDENDS

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

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

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

APPOINTMENT OF MEMBERS OF SUPERVISORY BOARD

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

BUY BACK

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

Q1, 2018

CHANGES IN THE MANAGEMENT BOARD

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

BUY BACK

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

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

APPEALS AGAINST THE OCCP DECISION

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

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

KEY INFORMATION ABOUT THE GROUP

1. KEY GROUP HIGHLIGHTS

1.1. BUSINESS PROFILE – ACTIVITIES OF THE GROUP

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

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

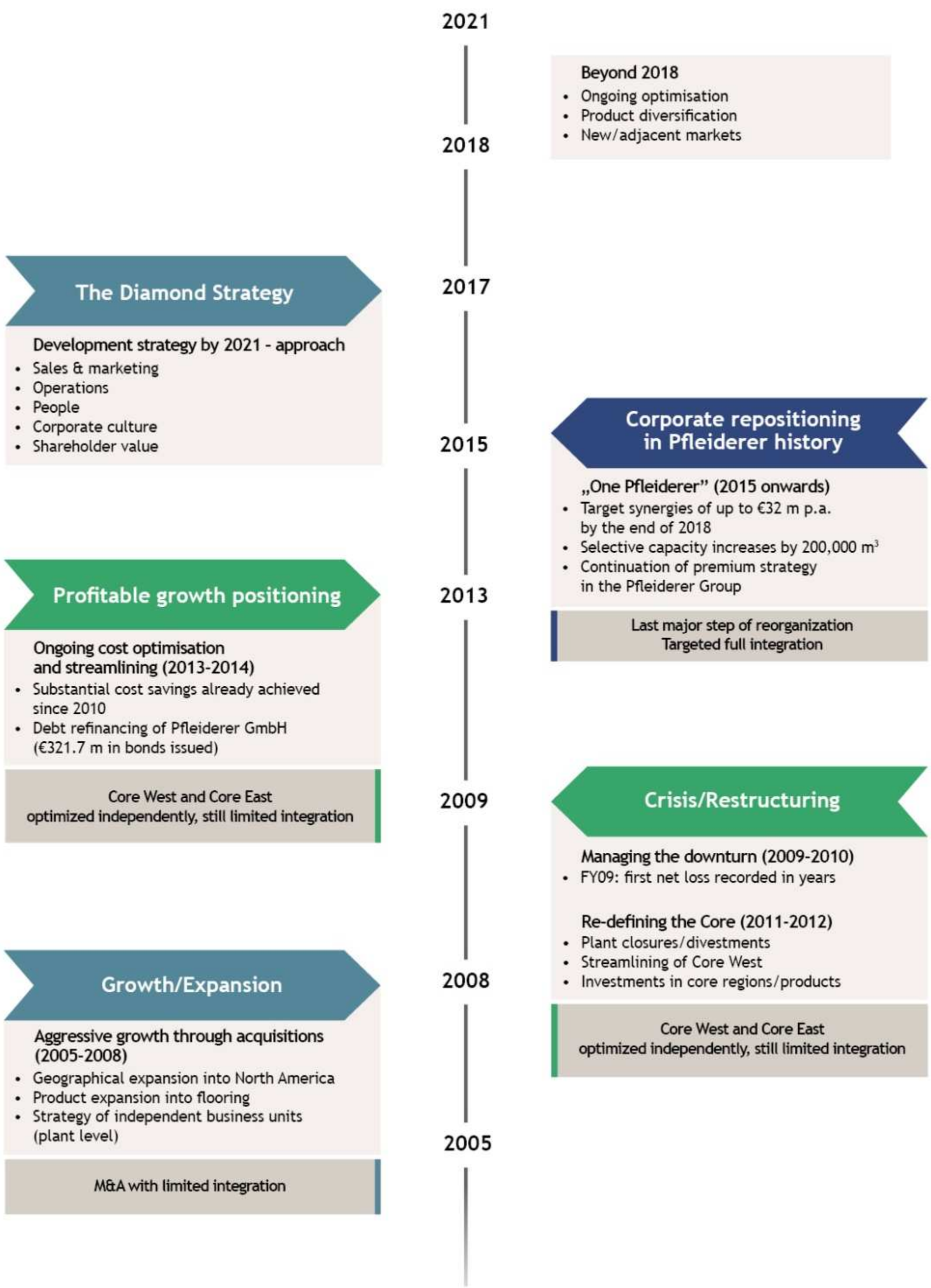
The Pfleiderer Group consists of entities with varying profiles of activity.

FIGURE 1: PFLEIDERER GROUP ENTITIES

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

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

FIGURE 2: PFLEIDERER GROUP CORPORATE HISTORY



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

FIGURE 3: PRODUCT RANGE

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

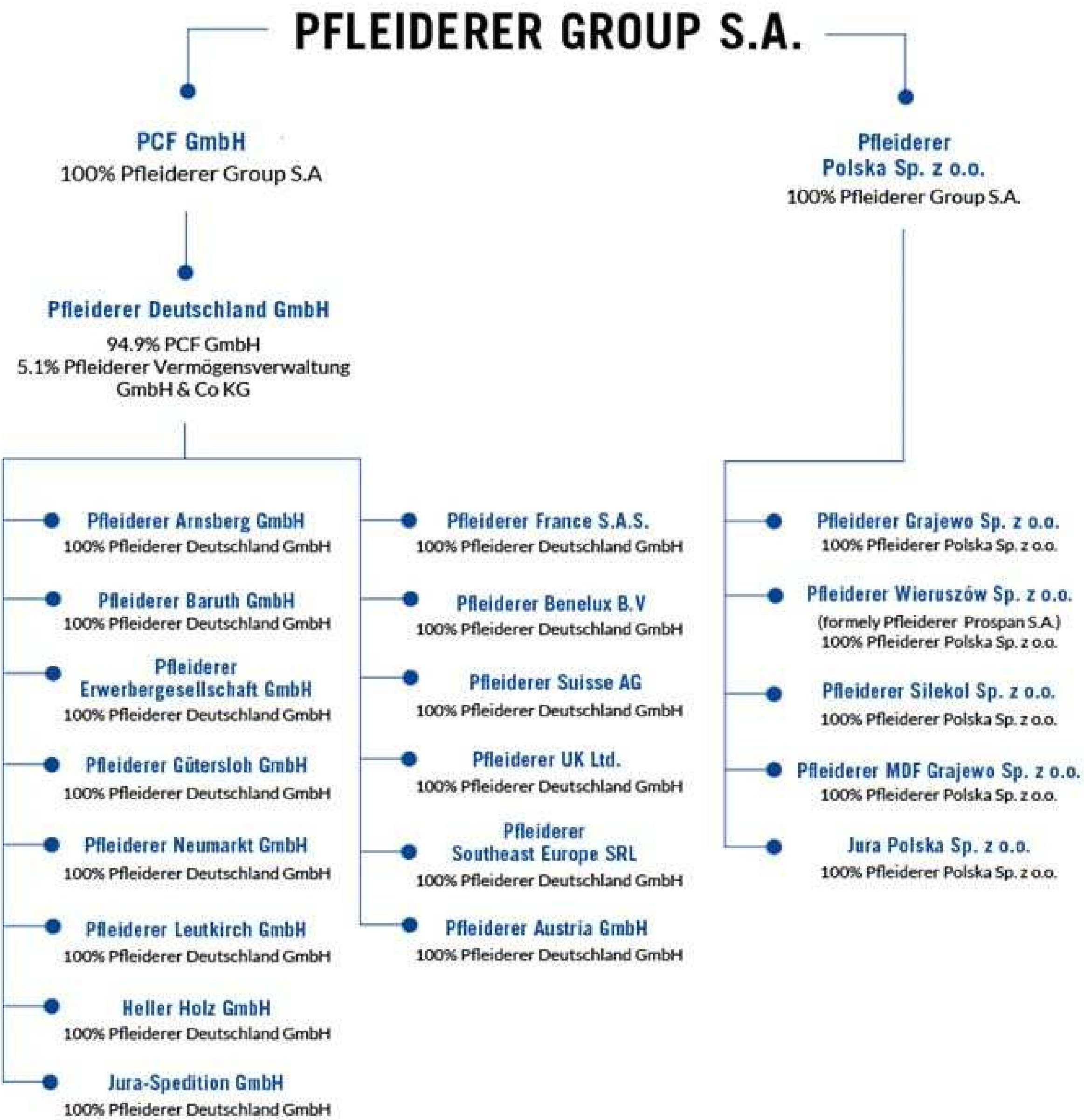
[1] Electricity generated as by-product of cogeneration plants and sold through the market
[2] Basic products relate to commodity products (i.e. raw particleboard, medium-density fibreboard and high-density fibreboard)
Source: Pfleiderer, Association of German Timber Industries (VHI)

1.2. GROUP STRUCTURE

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

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

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



1.2.1. PFLEIDERER GROUP COMPANIES AND THEIR BUSINESS ACTIVITIES

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

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

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

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

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

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

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

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

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

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

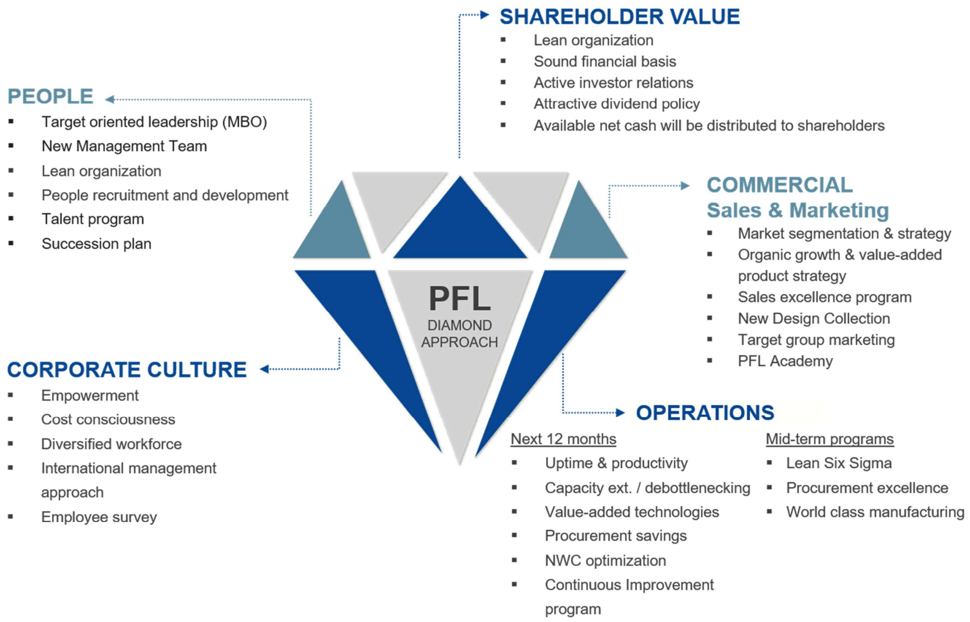
Beginning from 1 January 2017 all sales activities of Pfleiderer Group are concentrated in two sales entities: Pfleiderer Polska Sp. z o.o., which is responsible for all customers allocated to the "East" sales territory and Pfleiderer Deutschland GmbH, which is responsible for all customers allocated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

In 2018 there were no changes to the group structure.

1.3. PFLEIDERER GROUP STRATEGY

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

PFLEIDERER STRATEGY – THE DIAMOND APPROACH



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

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

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

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

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

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

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

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

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

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

Increasing operational efficiency and optimizing procurement spend

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

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

Growing our specialized Polish business

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

Stable capital expenditures to support sustainable, organic growth

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

1.4. INVESTMENT PROGRAMME

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

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

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

1.5. MARKETING ACTIVITIES IN 2018

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

TABLE 3: AWARDS GIVEN TO THE PFLEIDERER GROUP IN 2018

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

Pfleiderer will take part on the following fairs in 2019:

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

1.6. INNOVATIONS

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

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

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

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

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

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

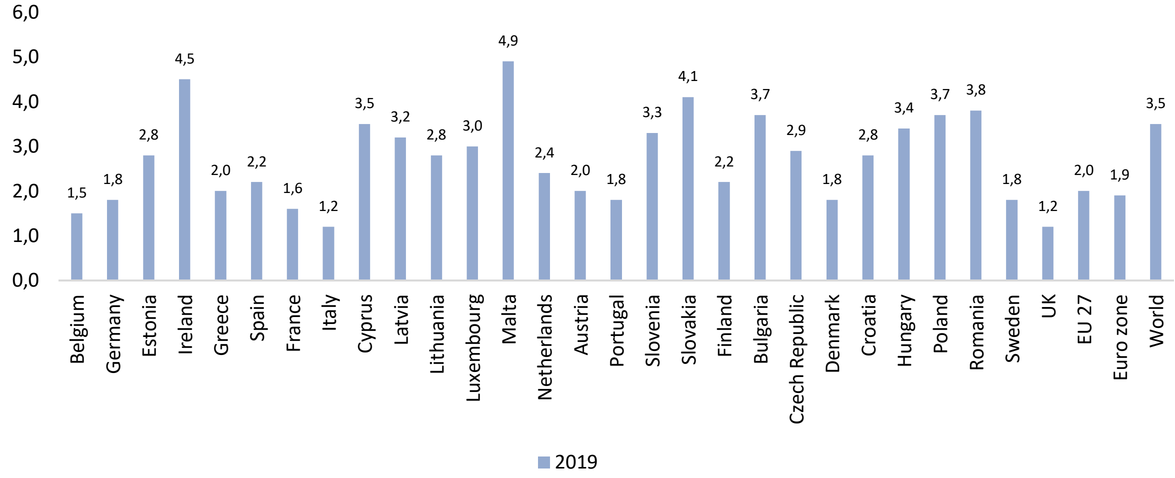
1.7. MARKET POSITION AND CONSTRUCTION MARKET OVERVIEW

Macroeconomic situation in autumn 2018

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

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

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



Source: European Commission, European Economic Forecast Autumn 2018

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

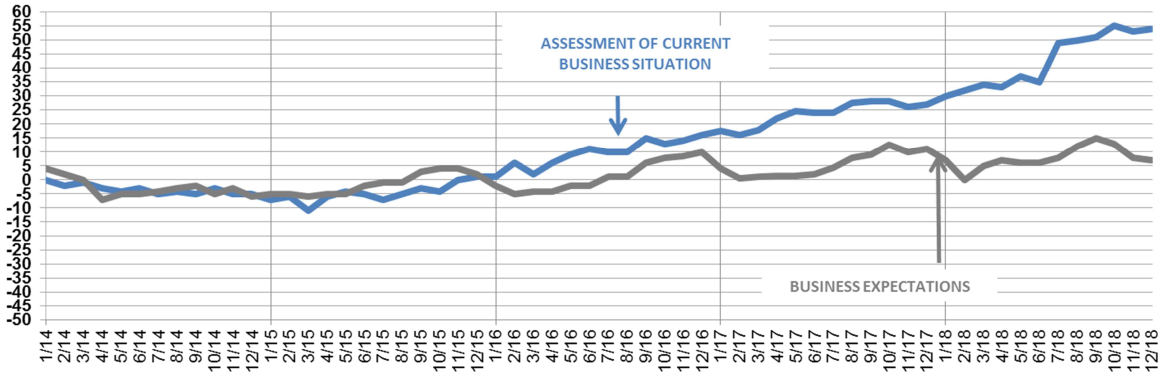
In Poland main driver of growth shall be private consumption, however its dynamics will gradually fade. Public investment activity is forecasted to remain strong due to support of EU funds, private investment is set to strengthen.

Business climate in construction

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

[1] Autumn 2018 Economic Forecast, EuroCom

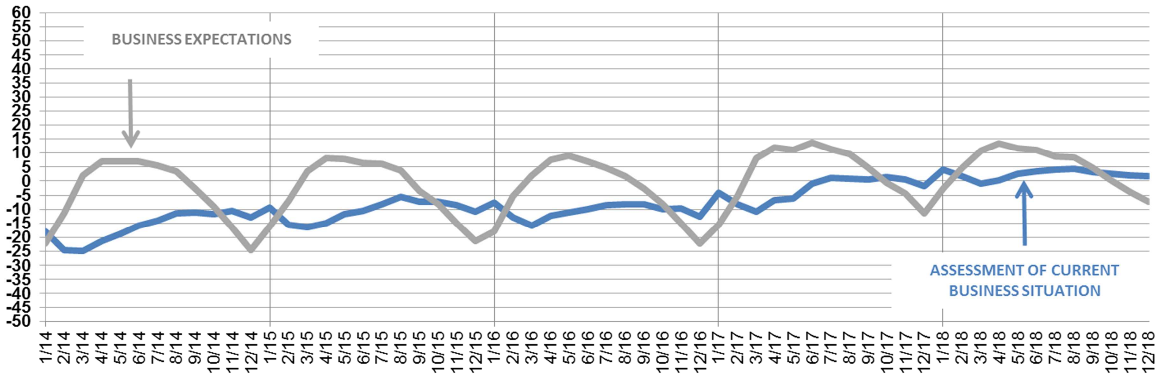
FIGURE 6: BUSINESS CLIMATE IN CONSTRUCTION – GERMANY



Source: own calculation based on ifo

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

FIGURE 7: BUSINESS CLIMATE IN CONSTRUCTION – POLAND



Source: own calculation based on GUS

Market dynamic

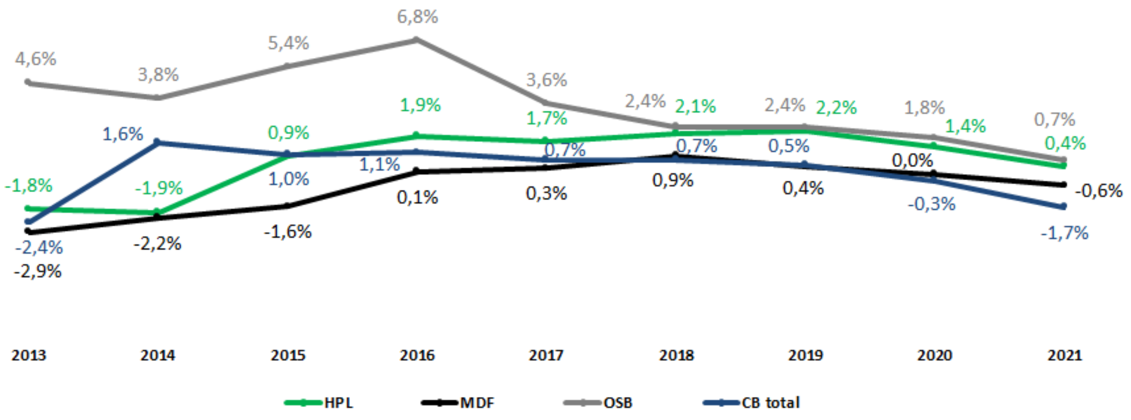
Pfleiderer strongly builds its position in furniture and construction market. The last one includes not only residential and non-residential objects, but also interior design. In terms of product portfolio the reference points are chipboard, laminate, MDF and OSB markets.

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

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

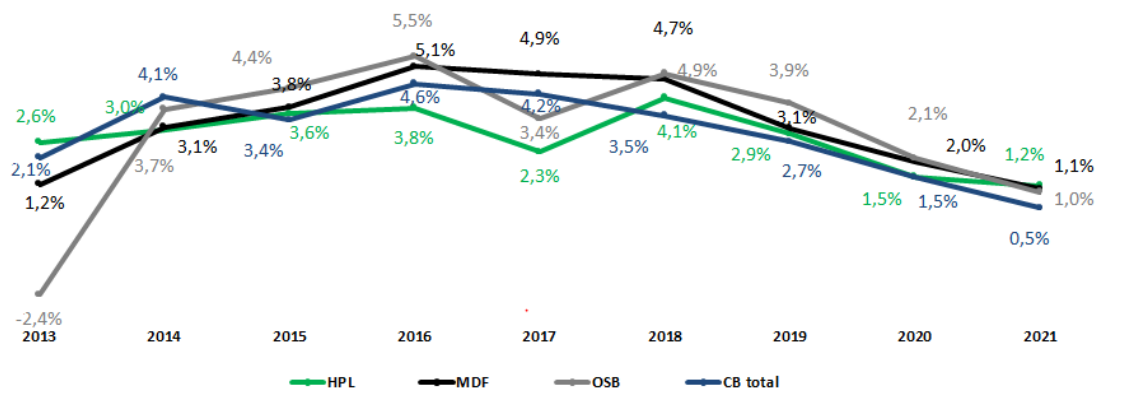
On both markets the highest demand growth in 2019 I expected on OSB market. In Germany also HPL and elements should have relatively high dynamic. In Poland higher sales growth is expected on chipboard market.

FIGURE 8: MARKET SIZE DYNAMIC (VOLUME) – DACH



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

FIGURE 9: MARKET SIZE DYNAMIC (VOLUME) – POLAND

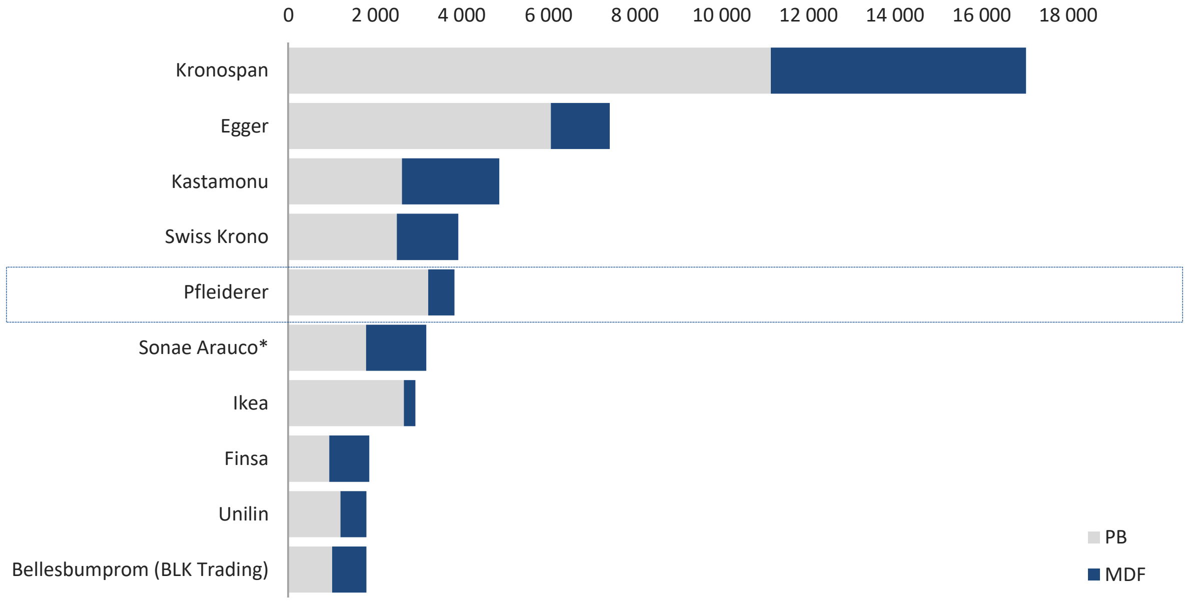


Source: own calculation based on reliable construction & furniture market data provider

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

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

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



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

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

Construction markets development perspective

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

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

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

Source: own calculation based on reliable construction market data provider

Drivers of construction core markets – DACH and PL

In DACH countries construction market is driven more by residential construction. Opposite to the market is Poland, driven mostly by non-residential buildings. German language speaking countries markets are based mostly on renovation construction (in residential and non-residential building). In Poland there's different situation – new buildings takes bigger part of the construction business.

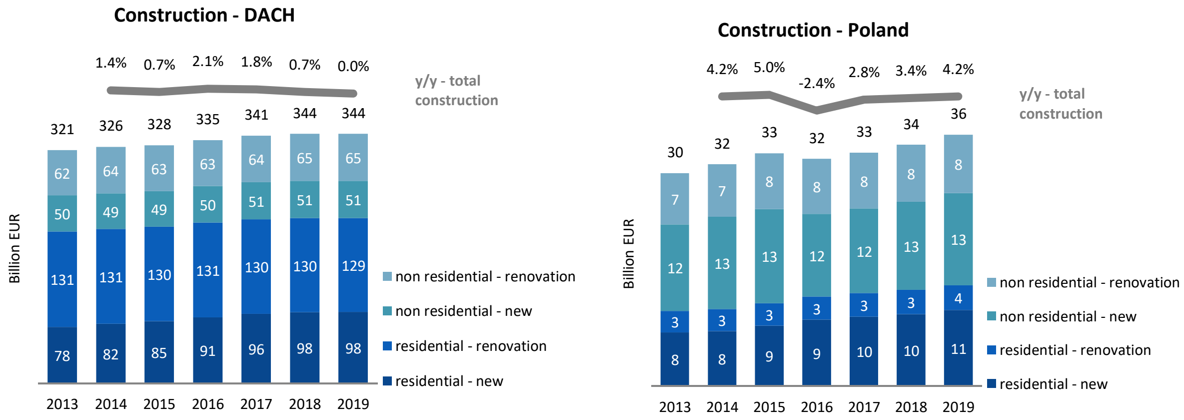
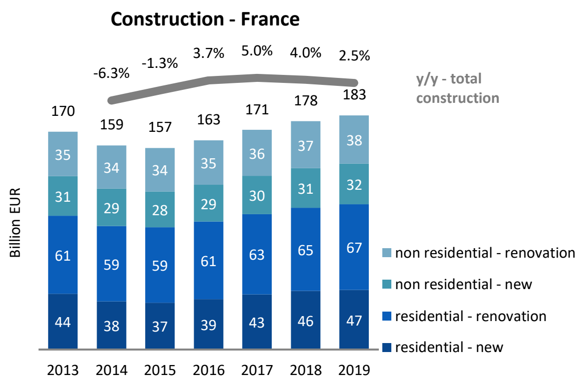


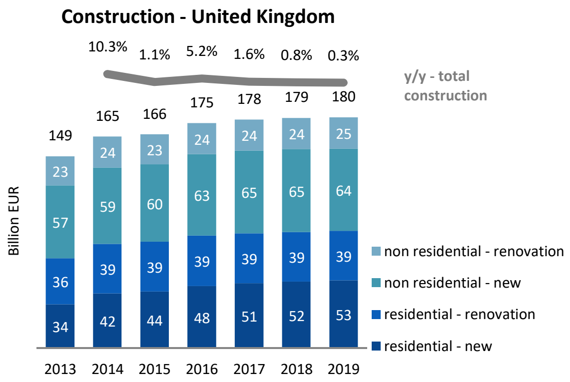
FIGURE 11: TOTAL CONSTRUCTION – DACH AND POLAND

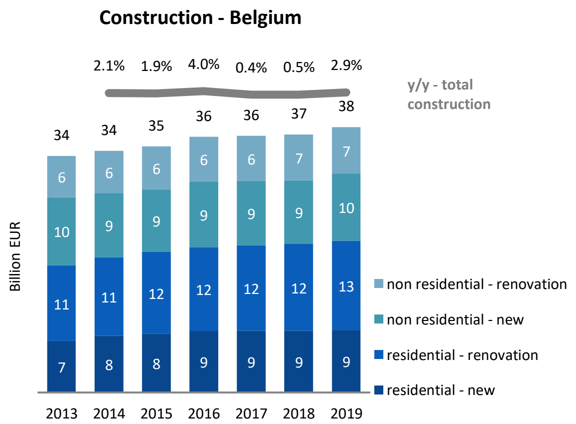
Drivers of construction markets – other countries

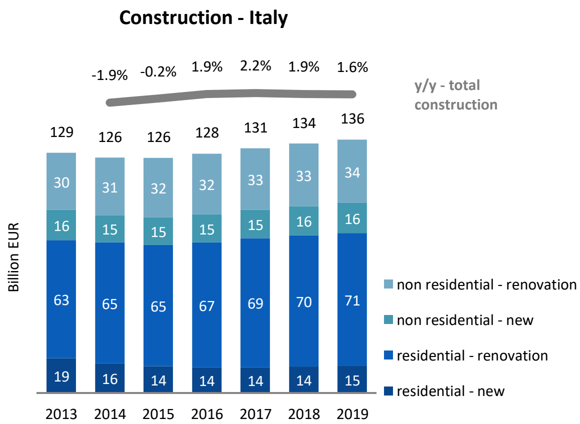
Construction market in France, Italy, Netherlands and Belgium is driven more by residential building and especially renovation works. Construction business in UK is equally based on residential and non-residential housing, and similarly to Poland – new buildings play bigger role here.

FIGURE 12: TOTAL CONSTRUCTION – OTHER COUNTRIES









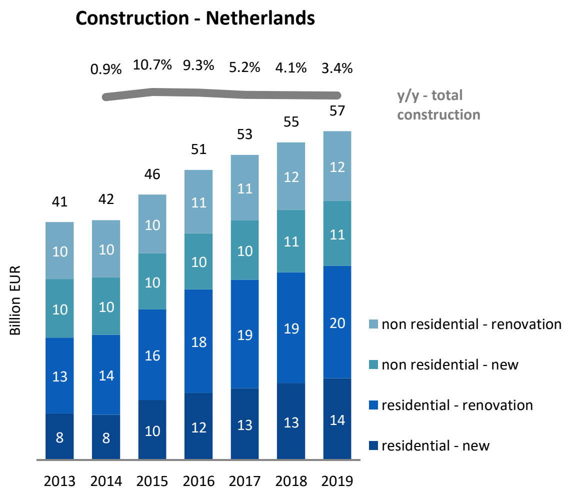
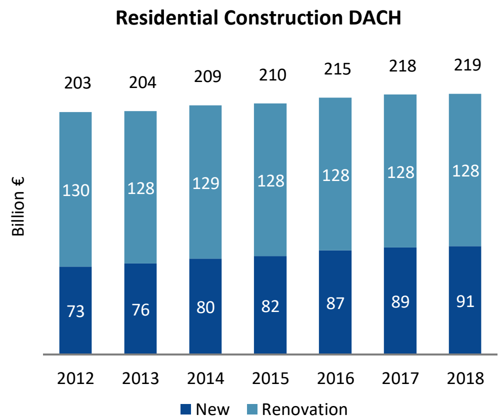
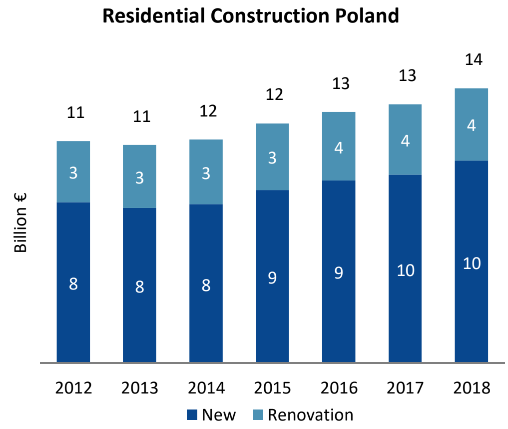
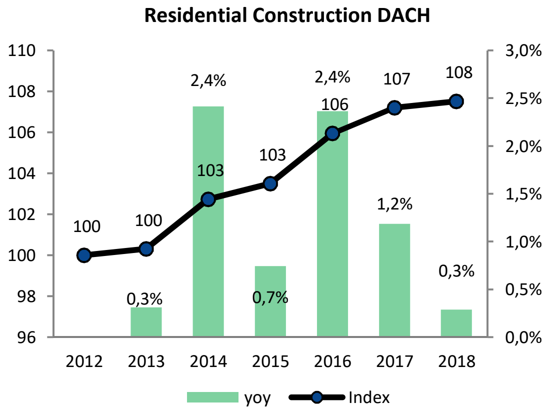
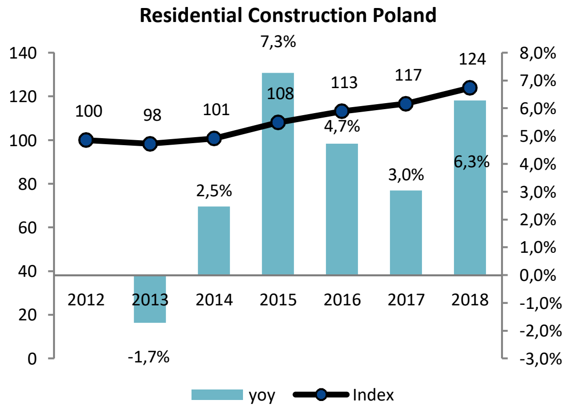


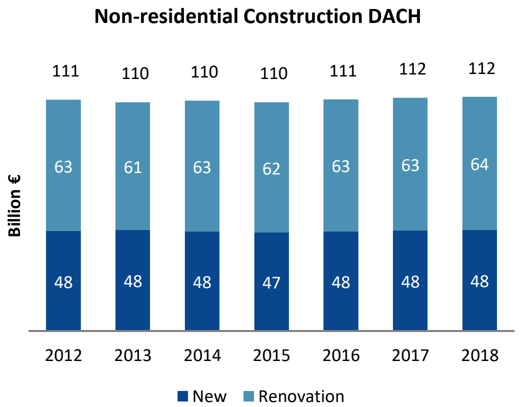
FIGURE 13: RESIDENTIAL AND NON-RESIDENTIAL CONSTRUCTION

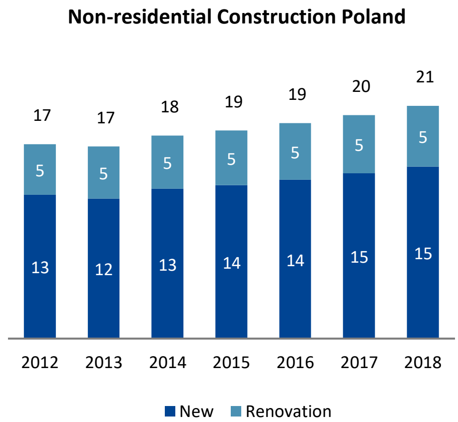












Source: Reliable construction market data provider

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

External factors affecting the Group's business:

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

Internal factors affecting the Group's business:

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

1.5. RISK MANAGEMENT

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

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

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

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

Central risk areas

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

Legal risks:

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

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

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

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

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

Legal and regulatory risks:

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

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

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

Financial risks:

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

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

Market and price risks:

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

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

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

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

Environmental and production risks:

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

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

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

Operational risks:

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

1.6. INFORMATION ON MATERIAL AGREEMENTS AND TRANSACTIONS

Material party-related transactions in 2018

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

1.7. COURT PROCEEDINGS

Information related to significant settlement of litigation

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

Contingent liabilities

Eastern Europe:

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

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

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

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

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

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

Western Europe:

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

As described below, two of the Pfleiderer Group's customers have sued the Pfleiderer Group for damages in connection with these antitrust violations. The companies are seeking compensation in connection with these antitrust violations. The outcome of the respective extrajudicial negotiations or proceedings is difficult to predict. Based on its best knowledge the Management estimated as of 31 December 2018 provisions related to antitrust violations of EUR 4 150 thousand including costs related to legal proceedings with Classen as well as legal costs and amicable settlements of claims with Oeseder. Depending on the final outcome of the negotiations and/or the proceedings, the Group could be obligated to make further substantial payments.

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

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

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

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

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

1.8. WORKFORCE IN THE PFLEIDERER GROUP

Human Resources Management

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

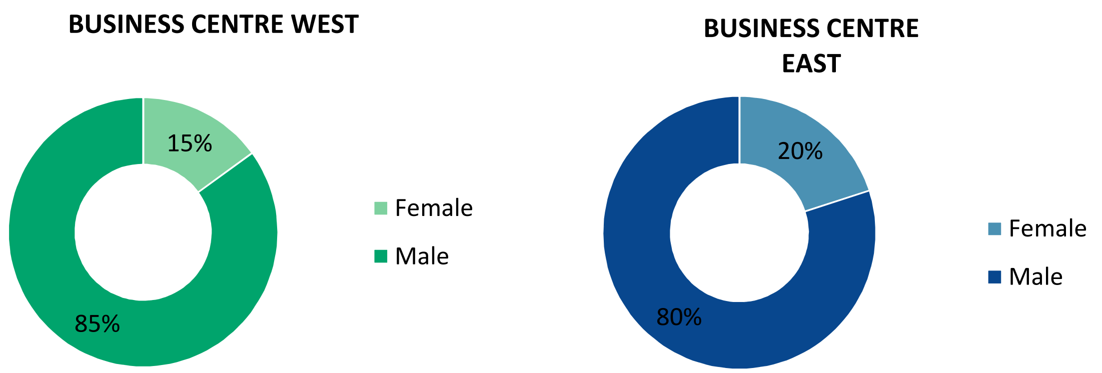
1 404 Annual employment in **Business Centre East** in 2018

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

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

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

FIGURE 14: GENDER STRUCTURE



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

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

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

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

Workforce at Pfleiderer Group S.A.

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

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

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

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

1.9. RESPONSIBILITY IN THE VALUE CHAIN

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

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

Health and Safety

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

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

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

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

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

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

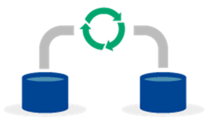
Environment

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

REACH

REACH is the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals. It took force in 2007, replacing the former legislative framework for chemicals in the EU. During the European REACH Process all chemicals produced in or imported to Europe have to be evaluated by ECHA (European Chemical Agency) regarding the environmental impact in the whole value chain. The aim is to restrict or authorise usage. This process also considers all glues and resins used in the Pfleiderer Group's production process.

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



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

BREF

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

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

Suppliers & raw materials

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

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

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

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

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

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

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

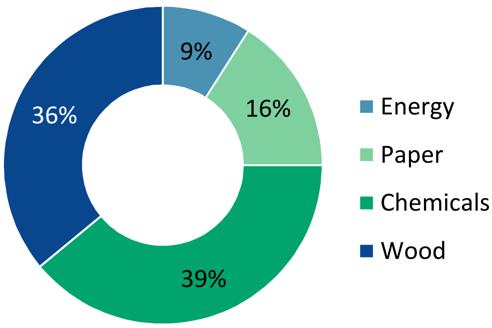
Further on-going targets are to enlarge the advantages of Global Sourcing markets, optimize working capital and optimize payment terms.

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

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

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

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



Wood

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

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

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

Chemicals

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

Paper

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

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

Energy

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

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

Indirect

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

Sustainability

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

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

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

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

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

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

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

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

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

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

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

KEY OPERATIONAL DATA

2. KEY OPERATIONAL DATA

2.1. PRODUCTION VOLUME AND STRUCTURE

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

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

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

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

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

2.2. SALES STRUCTURE

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

The sales volumes by product groups were as follows:

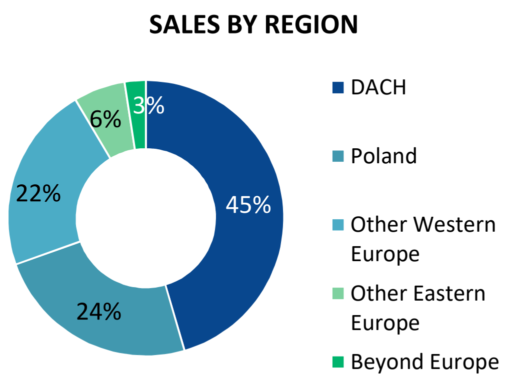
TABLE 9: REVENUE BY PRODUCT GROUP

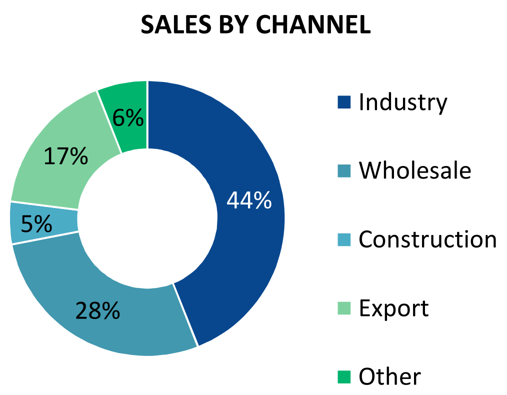
'000	2018	2017
Raw particleboard	194 972	183 503
Raw MDF/HDF	114 661	101 374
Lacquered board	34 486	30 173
Melamine faced board	463 026	459 679
HPL	78 320	74 956
HPL elements	86 358	79 654
Others	73 166	60 642
Sale of products	**1 044 989**	**989 981**
Electricity	35 802	33 909
Scrap	6 364	5 964
Freight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

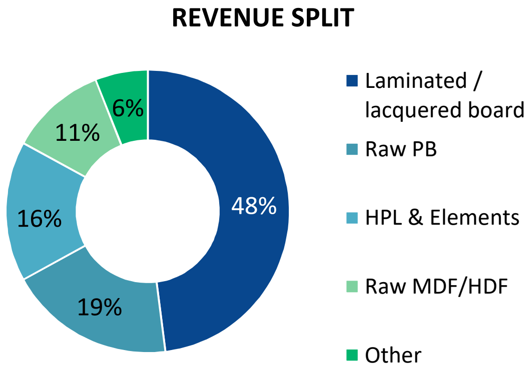
(1) Sales reductions include bonuses for customers, cash discounts and refunds.

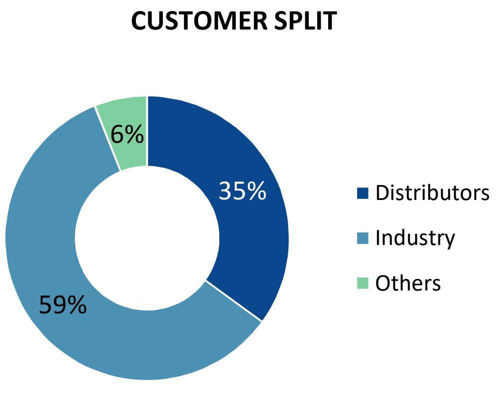
TABLE 10: SALES VOLUMES BY PRODUCT GROUP AT THE GROUP LEVEL

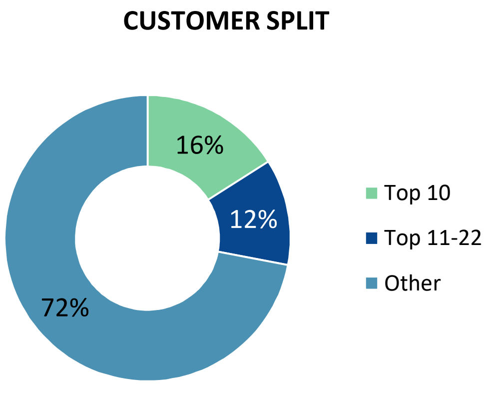
		2018	2017
Laminated particleboard	spm	99 496 755	101 473 261
HPL	spm	11 918 025	11 662 240
Raw particleboard	cbm	1 089 002	1 125 416
Laminated MDF/HDF board	spm	2 750 760	3 228 900
Raw MDF/HDF board	cbm	411 218	387 694











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

FINANCIAL PERFORMANCE

3. FINANCIAL PERFORMANCE

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

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

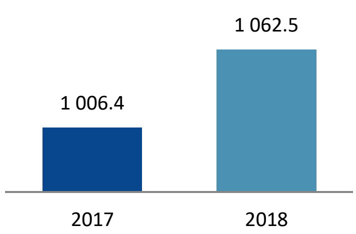
They were authorised for issue by the Group's Management Board on … April 2019.

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

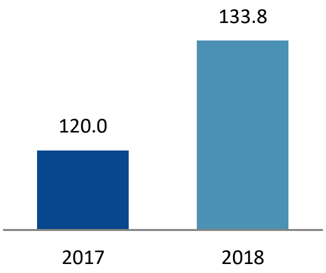
3.2. EXPLANATION OF THE ECONOMIC AND FINANCIAL DATA IN THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

3.2.1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

REVENUE (EUR M)



EBITDA (EUR M)



NET PROFIT (EUR M)

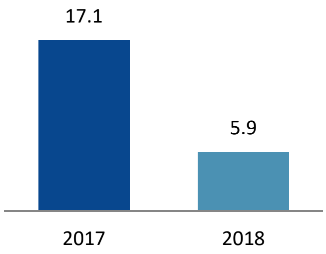


TABLE 11: CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

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

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

TABLE 12: CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR Q4

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

3.2.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

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

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

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

3.2.3. CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 14: CONSOLIDATED STATEMENT OF CASH FLOWS IN 2018

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

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

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

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

3.2.4. KEY FINANCIAL RATIOS – GROUP

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

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

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

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

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

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

TABLE 16: MARGINS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Guarantees by the members of the Group

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

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

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

3.3.1. STANDALONE STATEMENT OF PROFIT OR LOSS

TABLE 17: STANDALONE STATEMENT OF PROFIT OR LOSS

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

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

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

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

3.3.2. STANDALONE STATEMENT OF FINANCIAL POSITION

TABLE 18: STANDALONE STATEMENT OF FINANCIAL POSITION

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

3.3.3. STANDALONE STATEMENT OF CASH FLOWS

TABLE 19: STANDALONE STATEMENT OF CASH FLOWS

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

3.4. NON-RECURRING EVENTS

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

3.5. PROJECTED FINANCIAL RESULTS

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

3.6. RATINGS

TABLE 20: RATINGS AWARDED TO PFLEIDERER GROUP

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

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

3.7. AUDITOR

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

Deloitte Audyt Spółka z ograniczoną odpowiedzialnością sp. k.

Al. Jana Pawła II 22

00-133 Warszawa, Poland

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

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

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

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

3.8. FINANCIAL INSTRUMENTS

Derivative instruments

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

Borrowings

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

Bank loans and corporate bonds

Use of bank borrowings

TABLE 21: BORROWINGS AND OTHER DEBT INSTRUMENTS

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

Bank loans

Senior Facilities Agreement – entered into force on 1 August 2017

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

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

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

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

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

PFLEIDERER

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

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

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

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

Liabilities under borrowings from related parties

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

Standalone

Loans – Pfleiderer Group S.A.

Loans advanced:

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

Liabilities under borrowings from related parties

Liabilities under borrowings from related parties comprise the following balances:

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

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

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

As at 31 December 2018, no such events occurred.

Derivatives

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

Commercial paper program

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

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

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

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

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

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

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

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

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

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

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

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

Financial standing of Pfleiderer Group S.A. - Standalone

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk

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

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

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

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

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

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

Interest rate risk

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

Currency risk

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

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

Forward contracts are measured at the end of each month.

Liquidity and material cash-flow disruptions risk

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

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

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

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

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

Credit risk

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

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

Currency risk

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

The risk of changes in the prices of financial instruments

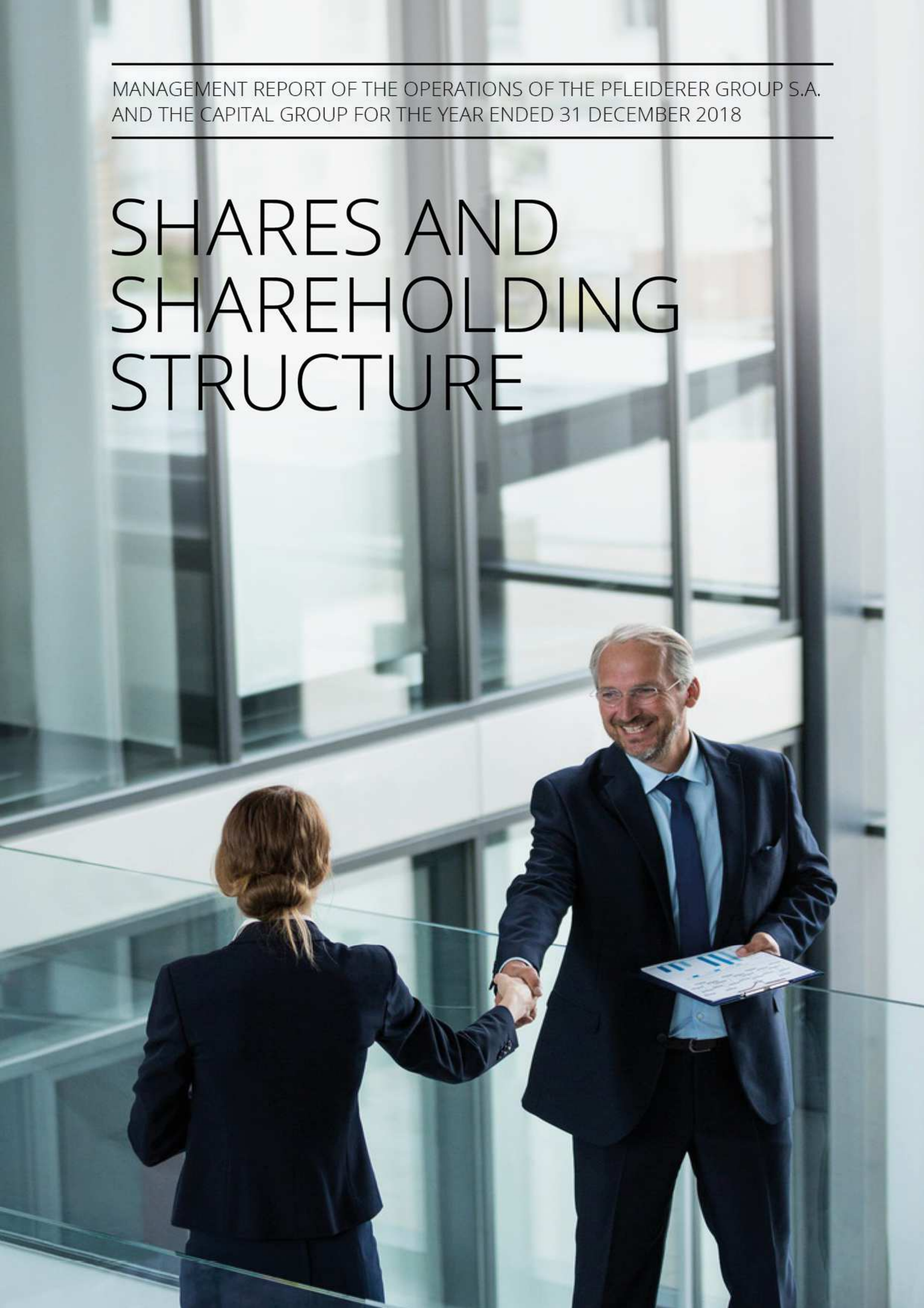
The Company is not exposed to any material price risk associated with financial instruments.

Liquidity risk and risk of significant disruptions in cash flows

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

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

SHARES AND SHAREHOLDING STRUCTURE



4. SHARES AND SHAREHOLDER STRUCTURE

4.1. SHAREHOLDER STRUCTURE

TABLE 27: SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2018

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

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

Announced treasury shares repurchase programme

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

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

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

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

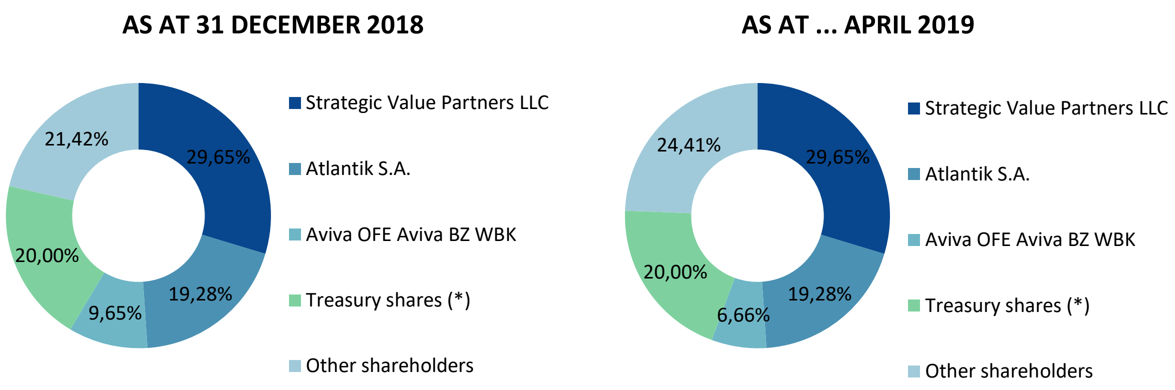
Pursuant to the resolution of the Ordinary General Meeting of Shareholders of the Company dated 21 June 2017, the shares purchased under the programme may be: (i) oferred to persons entitled purchase shares under the Company's incentive programme (ii) redeemed; or (iii) otherwise disposed of by the Management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

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

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

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

FIGURE 16: SHAREHOLDER STRUCTURE



4.2. DIVIDEND POLICY

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

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

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

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

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

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

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

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

TABLE 28: DIVIDEND

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

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

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

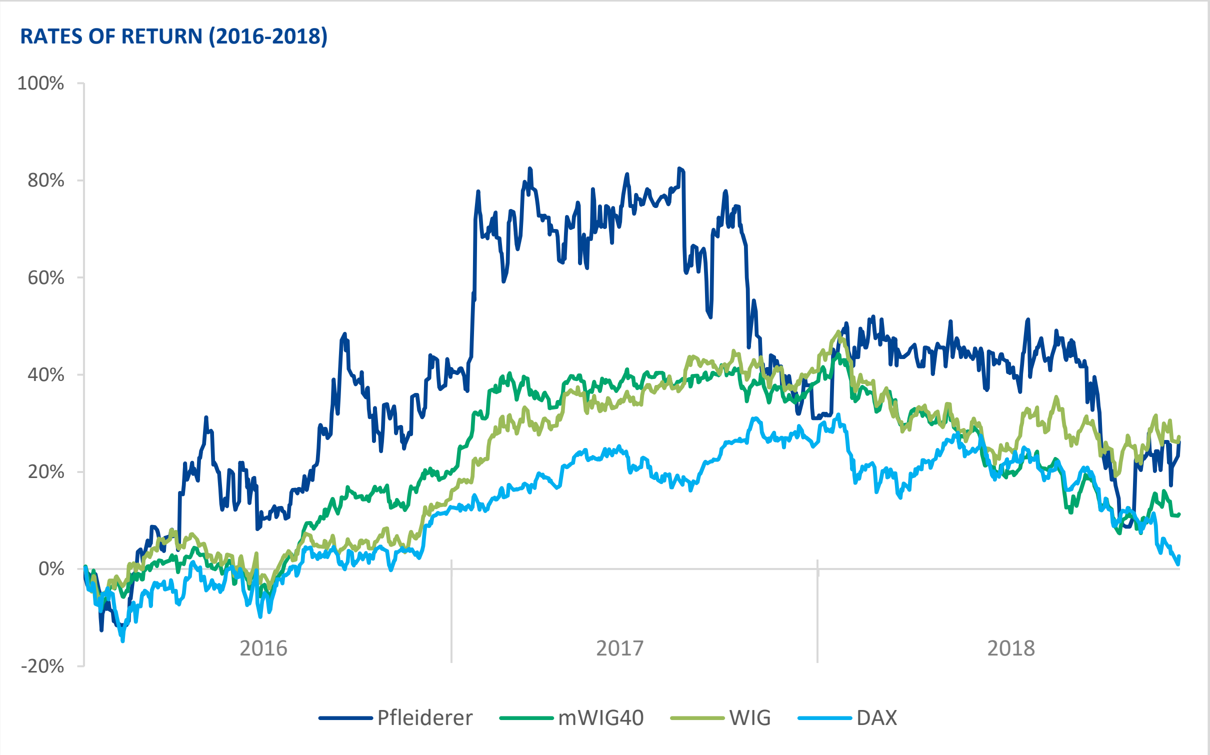
(***) share price two business days before the dividend record date

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

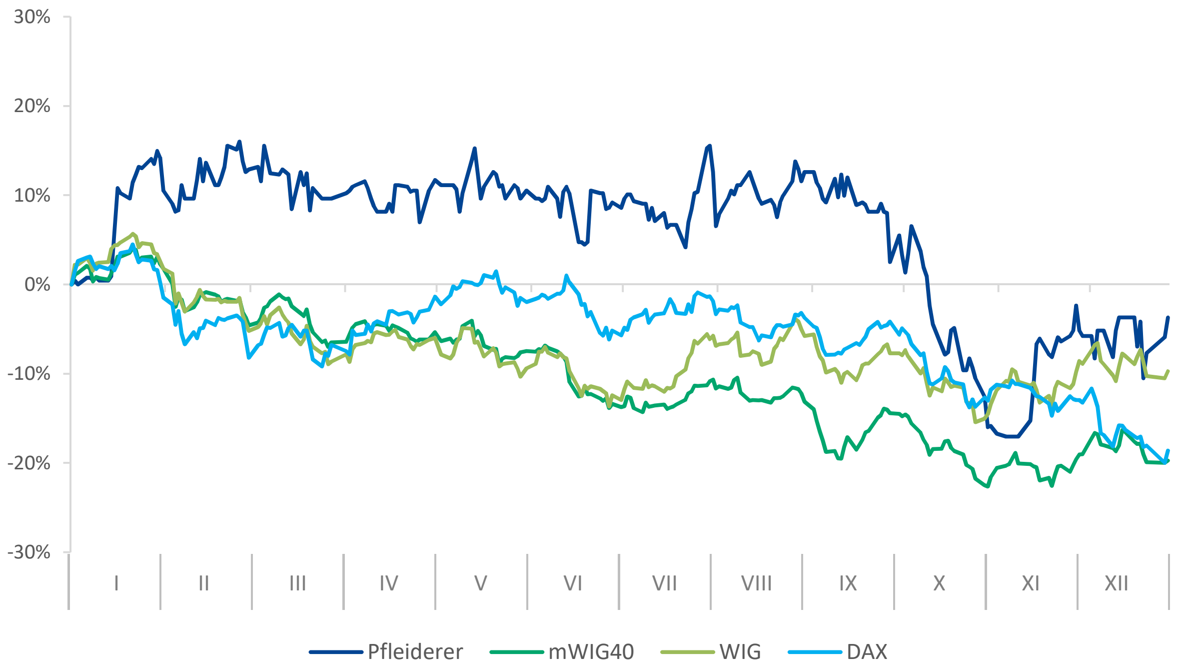
TABLE 29: PFLEIDERER GROUP ON THE WSE – COMPANY HIGHLIGHTS

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

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

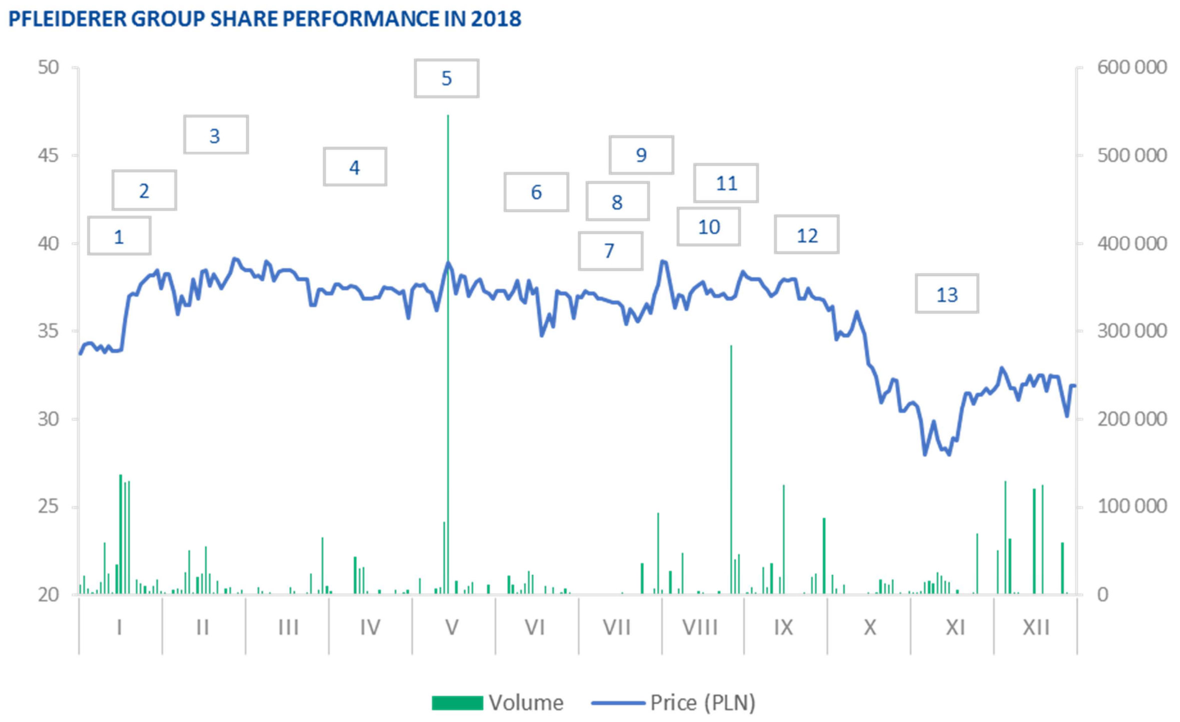


RATES OF RETURN (1.01.2018 – 31.12.2018)



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

FIGURE 18: PFLEIDERER GROUP QUOTATIONS IN 2018



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

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

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

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

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

4.4. INVESTOR RELATIONS IN PFLEIDERER GROUP

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

Activities dedicated to investors – summary

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

Other:

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

New head of Investor relations

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

2021 strategy update

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

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

4.5. RECOMMENDATIONS

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

TABLE 32: RECOMMENDATIONS

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE

5. CORPORATE GOVERNANCE

5.1. CORPORATE GOVERNANCE RULES USED IN THE COMPANY

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

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

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

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

5.2. MAJOR SHAREHOLDERS

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

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

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

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

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

Announced treasury shares repurchase programme

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

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

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

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

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

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

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

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

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

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

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

The nominal value of each share is PLN 0.33.

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

5.4. SHARES HELD BY PFLEIDERER GROUP S.A.

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

Treasury shares are described in point 5.2

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

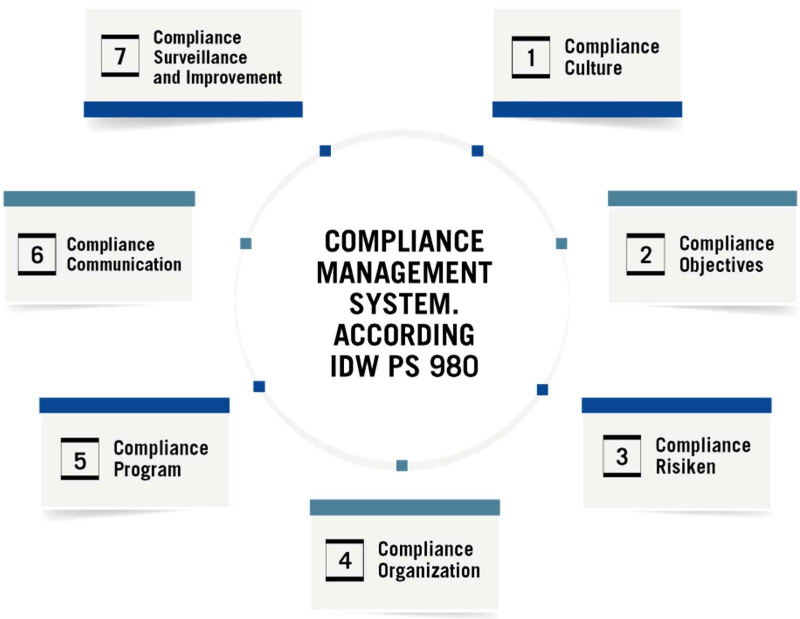
The internal control system is a process put into place by Pfleiderer's Management Board, management and other staff to provide a reasonable assurance that the standalone and consolidated financial statements are true and fair and comply with the binding regulations of law. Risk management, the internal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

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

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

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

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



Control environment

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

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

Risk assessment

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

Control activities

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

Monitoring

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

5.6. COMPANY'S CORPORATE BODIES

5.6.1. GENERAL MEETING

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

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

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

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

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

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

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

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

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

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

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

5.6.2. SUPERVISORY BOARD

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

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

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

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

Changes in Supervisory Board

On 17 December 2018 the Company received the resignation letter from Mr. Jason Clarke regarding the resignation from the position of member of the Company's Supervisory Board with effect as of the date of the appointment by the general meeting of the shareholders of the Company of a new member of the supervisory board of the Company in his place. In case the appointment of a new member of the supervisory board of the Company would not take place before 14 February 2019, the resignation would be effective as of 14 February 2019.

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

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

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

Manner of operation and Supervisory Board powers

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

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

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

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

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

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

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

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

Supervisory Board Committees

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

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

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

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

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

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

Audit Committee

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

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

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

Nomination and Remuneration Committee

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

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

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

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

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

Transformation Committee

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

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

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

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

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

Principles of determining the compensation of Supervisory Board members

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

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

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

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

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

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

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

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

5.6.3. MANAGEMENT BOARD

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

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

 **TOM K. SCHÄBINGER** PRESIDENT OF THE MANAGEMENT BOARD	Mr. Tom K. Schäbinger (born in 1962) is a graduate of the Vienna University of Economies & Business (in 1989 he graduated in Studies of Business Administration) and Secondary School for Mechanical Engineering in St. Pölten (in 1982 he graduated with distinction as Engineer (Ingenieur)). Mr. Tom K. Schäbinger has been working as CEO for Bundy Refrigeration Group (cooling technology provider) since 2015 and has been managing partner of TS TRUST GmbH (a capital investment company) since 2014. Between 1998 and 2014 he held several positions in Mondi Europe and International (formerly known as Frantschach – a packaging and paper group with global operations), including several positions as Chief Executive Officer. Previously, Mr. Tom K. Schäbinger worked in various management positions including at Unilever and at Beiersdorf.
 **DR. NICO REINER** MEMBER OF THE MANAGEMENT BOARD	Dr. Nico Reiner (born in 1969) graduated business administration at the University Regensburg, Germany. He obtained PhD title at the HHL – Leipzig Graduate School of Management. Since 2014 Dr. Reiner has been working as the CFO of AL-KO Kober SE, Germany, a globally active company specialized in vehicle technology, garden technology and air technology. Dr. Reiner has been holding a position of Member of Management Board, CFO of holding company of AL-KO Kober Group. In a period 2005 – 2014 Dr. Reiner was working as the CFO, Member of the Executive Board of Schueco International KG, a worldwide leading supplier of building envelopes, active in the market of windows, doors and facades. Earlier Dr. Reiner was working on managerial positions for Droege & Comp. GmbH, International Management Consultancy.
DIRK HARDOW MEMBER OF THE MANAGEMENT BOARD	Mr. Dirk Hardow (born in 1965) is a graduate of the Technical Univeristy of Hamburg, where in 1993 he graduated in Industrial Engineering & Management ("Hochschulübergreifender Studiengang Wirtschaftsingenieur"). Since 2011 Mr. Dirk Hardow was associated with US corporation Owens – Illinois Inc. Within the Owens – Illinois Inc structures he was i.a. the Vice President of European Operations (August 2011 – May 2015) and since October 2013 he was the Vice – Chairman of the Board of Vetrerie Meridionali, a glass manufacturing company. Furthermore, since June 2015 Mr. Dirk Hardow was the General Manager for South East Europe, where he was responsible for the operations of 11 factories in Italy and Hungary. From October 2011 to April 2013 he was a Member of the Board of Directors of Maltha Groep BV, a glass recycling company. Previously, Mr. Dirk Hardow worked on the management positions i.a. at Cremer-Group, Rohm and Hass Company as well as H.B. Fuller Company.

Changes in the Management Board

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

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

Events after the balance sheet date

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

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

Long term incentive programme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appointment and removal of the management

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

Parent Company's management bodies

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

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

5.7. COMPENSATION REPORT

5.7.1. MANAGEMENT BOARD

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

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

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

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

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

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

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

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

The nominal value of each share is PLN 0.33.

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

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

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

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

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

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

5.7.2. SUPERVISORY BOARD

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

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

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

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

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

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

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

Changes in Supervisory Board

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

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

Events after the balance sheet date

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

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

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

Shares in the Parent Company

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

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

5.9. RESTRICTIONS REGARDING THE EXERCISE OF VOTING RIGHTS

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

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

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

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

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

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

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

5.10. RESTRICTIONS ON THE TRANSFER OF OWNERSHIP TITLE TO SECURITIES

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

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

Amendments to the Parent Company's Articles of Association

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

5.12. DIVERSITY MANAGEMENT

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

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

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

6. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

CHANGES IN SUPERVISORY BOARD

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

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

CHANGES IN MANAGEMENT BOARD

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

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

7. NON-FINANCIAL STATEMENT

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

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

8. MANAGEMENT BOARD REPRESENTATION

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

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

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

LIST OF FIGURES

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