SELENA FM S.A.

FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018

Wrocław, 25 April 2019

INCOME STATEMENT

Figures in PLN thousand	Note	Year ended 31 December 2018	Year ended 31 December 2017
Continued operations			
Revenue from the sale of goods and materials		462,339	474,558
Revenues from the sale of services		27,745	29,030
Revenue from sales		**490,084**	**503,588**
Cost of sales		422,937	450,996
Gross profit (loss)		**67,147**	**52,592**
Other operating income	7.1	556	28,367
Selling and marketing costs		34,462	30,432
General and administrative expenses		28,707	29,210
Other operating costs	7.2	1,529	5,504
Reversal of impairment losses of financial receivables		5,445	0
Operating profit (loss)		**8,450**	**15,813**
Financial revenues	8.1	34,094	86,095
Financial expenses	8.2	32,375	77,828
Reversal of impairment losses of loans granted		21,341	0
Profit (loss) before tax		**31,510**	**24,080**
Income tax debit/ credit (-)	9.1	995	-1,742
Profit (loss) after tax		**30,515**	**25,822**

Earnings per share (continued operations) (PLN/share):		
- basic	1.34	1.13
- diluted	1.34	1.13

STATEMENT OF COMPREHENSIVE INCOME

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Profit (loss) after tax	30,515	25,822
Other net comprehensive income	0	0
Total comprehensive income	**30,515**	**25,822**

STATEMENT OF FINANCIAL POSITION

Figures in PLN thousand	Note	31 December 2018	31 December 2017 restated data*
Property, plant and equipment	11	2,837	2,784
Intangible fixed assets	12	15,800	17,204
Shares in subsidiaries	13	161,710	161,710
Long-term portion of loans granted	15	98,364	90,953
Deferred tax asset		0	82
Non-current assets		**278,711**	**272,733**
Inventories		4,346	2,354
Trade receivables		159,235	143,958
CIT claimed		0	0
Other short-term receivables	16	22,375	24,758
Short-term portion of loans granted	15	24,772	14,628
Other short-term financial assets		277	309
Cash and cash equivalents		1,849	10,121
Current assets		**212,854**	**196,128**
TOTAL ASSETS		**491,565**	**468,861**
Registered capital	17.1	1,142	1,142
Supplementary capital	17.2	265,794	246,822
Other reserves	17.3	19,163	19,163
Retained profit/ loss carried forward	17.4	20,739	25,822
– retained profit/ loss from previous years		-9,776	0
– profit (loss) after tax		30,515	25,822
Equity		**306,838**	**292,949**
Long-term portion of bank and other loans	19.1	83,450	17,516
Other financial liabilities	22.1	745	480
Deferred tax assets		96	0
Provision for retirement benefits		153	0
Non-current liabilities		**84,444**	**17,996**
Trade liabilities	28.3	85,597	84,297
Obligations to return remuneration **		953	0
Short-term portion of bank and other loans	19.1	8,516	70,155
Other financial liabilities	22.1	631	527
Income tax payable		512	291
Other short-term liabilities	18.1	4,074	2,646
Current liabilities		**100,283**	**157,916**
Total liabilities		**184,727**	**175,912**
TOTAL EQUITY AND LIABILITIES		**491,565**	**468,861**

* the reasons and effects of the restated data published in earlier periods are described in Note 3.1

**The impact of IFRS 15 is described in Note 3.2

STATEMENT OF CASH FLOWS

Figures in PLN thousand	Note	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Profit / loss before tax on continued operations		31,510	24,080
Adjusted by:			
Depreciation/ amortisation		3,476	2,823
FX (gains) / losses		3,983	9,928
Interest and dividends		-30,835	-77,350
Profit / loss on investing activities		-145	55,240
Change in the balance of receivables		-26,237	-48,577
Change in the balance of inventories		-1,992	-386
Change in the balance of obligations		3,387	-44,883
Change in the balance of provisions		153	0
CIT paid		-223	-374
Other		6,197	910
Net cash flows from operating activities		-10,818	-78,589
Cash flows from investing activities			
Inflows from the sale of tangible fixed assets		28	62
Acquisition of tangible and intangible fixed assets		-783	-892
Purchase of shares in subsidiaries		0	-17,063
Sale of other financial assets		0	10
Dividends and interest received		26,744	10,581
Cancellation of subsidiaries' shares		0	63,912
Loans granted		-28,455	-14,262
Repayments of loans granted		12,547	20,501
Bond repayments received		0	60,350
Net cash flows from investing activities		10,081	123,199
Cash flows from financing activities			
Repayment of finance lease obligations		-698	-718
Inflows from bank/ other loans received		61,753	20,205
Repayment of loans		-58,678	-49,520
Payment of dividend		-6,850	-6,850
Interest paid		-3,082	-3,854
Net cash flows from financing activities		-7,555	-40,737
Increase/ decrease in cash and cash equivalents		-8,292	3,873
Change in cash and cash equivalents:		-8,272	3,846
net FX differences		20	-27
*Cash at the beginning of the period**		*10,121*	*6,275*
*Cash at the end of the period**		*1,849*	*10,121*

*including restricted cash:
as at 31 December 2018: PLN 0.05m
as at 31 December 2017: PLN 0.05m

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in PLN thousand	Registered capital	Supplementary capital	Other reserves	Retained profit/ (loss carried forward): prior years	Retained profit/ (loss carried forward): current period	Total equity
As at 1 January 2018 – published data	**1,142**	**246,822**	**19,163**	**25,822**	**0**	**292,949**
Impact of implementation of IFRS 9	0	0	0	-9,776	0	-9,776
As at 1 January 2018 – after adoption of IFRS 9 *	**1,142**	**246,822**	**19,163**	**16,046**	**0**	**283,173**
Profit (loss) after tax	0	0	0	0	30,515	30,515
Total comprehensive income	**0**	**0**	**0**	**0**	**30,515**	**30,515**
Transfer of profit to the supplementary capital	0	18,972	0	-18,972	0	0
Dividend	0	0	0	-6,850	0	-6,850
As at 31 December 2018	**1,142**	**265,794**	**19,163**	**-9,776**	**30,515**	**306,838**

**The impact of IFRS 9 is described in Note 3.2

FOR THE YEAR ENDED 31 DECEMBER 2017

Figures in PLN thousand	Registered capital	Supplementary capital	Other reserves	Retained profit/ (loss carried forward): prior years	Retained profit/ (loss carried forward): current period	Total equity
As at 1 January 2017	**1,142**	**246,545**	**19,163**	**7,127**	**0**	**273,977**
Profit (loss) after tax	0	0	0	0	25,822	25,822
Total comprehensive income	**0**	**0**	**0**	**0**	**25,822**	**25,822**
Transfer of profit to the supplementary capital	0	277	0	-277	0	0
Dividend	0	0	0	-6,850	0	-6,850
As at 31 December 2017	**1,142**	**246,822**	**19,163**	**0**	**25,822**	**292,949**

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Information on the Company

1.1. Company's activity

Selena FM S.A. was established and registered in 1993 as a limited liability company under the name Przedsiębiorstwo Budownictwa Mieszkaniowego. In 2006, the Extraordinary General Meeting of Shareholders approved the name change to Selena FM. In 2007, the Company was transformed into a joint stock company. On 18 April 2008, Selena FM S.A. debuted on the Warsaw Stock Exchange and has been a listed entity since that date.

Its duration is indefinite (it is a going concern).

The Company's registered office is at Strzegomska 2-4, 53-611 Wrocław, Poland. The Company operates in Poland.

The Company is entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, after transformation, under KRS no. 0000292032 (previous KRS no. 0000129819). The Company was assigned the statistical number REGON 890226440.

The Company's core business includes:
- distribution of the Group's products to foreign markets
- providing subsidiaries with advice on strategic management, finance management, sales strategy as well as maintenance of accounting books for customers.

Selena FM S.A. and Selena FM Group are controlled by Krzysztof Domarecki.

1.2. The Management Board of the Company

As at 31 December 2017, the Parent Company's Management Board was composed of:
- Jean-Noël Fourel – Management Board President
- Marcin Macewicz – Vice-President of the Management Board for Sales and Marketing
- Hubert Rozpędek – Vice-President of the Management Board for Finance
- Agata Gładysz-Stańczyk – Vice President of the Management Board, Innovation and Development Director.
- Artur Ryglowski – Management Board Member, Production and Logistics Operations Director.

Changes in the Management Board in 2018:
- on 5 January 2018, Jean-Noël Fourel resigned as Management Board President of the Company.
- on 12 January 2018, the Company's Supervisory Board adopted appointed Marcin Macewicz as acting Management Board President pending election of a new Management Board President.
- on 15 June 2018, the Supervisory Board of the Company appointed the following Management Board members for a joint three-year term of office: Marcin Macewicz – Management Board President, Management Board Member, Artur Ryglowski – Management Board Member.
- on 19 November 2018, the Company's Supervisory Board adopted a resolution appointing Elżbieta Korczyńska as a Management Board member and a CFO of Selena Group pending appointment of Vice President of the Management Board for Finance.
- on 5 December 2018, Marcin Macewicz, who was the Management Board President, passed away.
- on 7 December 2018, the Supervisory Board of the Company adopted a resolution delegating the duties of the Management Board President to Krzysztof Domarecki, the Supervisory Board Chairman, for the following three months, but no longer than until appointment of the new President of the Company's Management Board;
- on 19 December 2018, the Supervisory Board removed Agata Gładysz-Stańczyk from the Management Board as Management Board Member and accepted the resignation of Artur Ryglowski, who was a Management Board Member.

As at 31 December 2018, the Parent Company's Management Board was composed of:
- Krzysztof Domarecki – acting Management Board President
- Elżbieta Korczyńska – Management Board Member, CFO

On 7 January 2019, the following persons were appointed to the Management Board of Selena FM S.A.:

- Dariusz Ciesielski, who was appointed Vice President of the Management Board for Sales, and
- Bogusław Mieszczak, who was appointed Management Board Member for Operations.

As of 1 March 2019, the following persons were appointed to the Management Board of Selena FM S.A.:

- Krzysztof Domarecki, who was appointed President of the Management Board and
- Christian Dölle, who was appointed Vice President of the Management Board for Marketing.

By the date of publication of this report, no other changes took place in the Management Board's composition.

1.3. Company's Supervisory Board

As at 31 December 2017, the Company's Supervisory Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – Supervisory Board Member
- Stanisław Knaflewski – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Sylwia Sysko-Romańczuk – Supervisory Board Member
- Marlena Łubieszko-Siewruk – Supervisory Board Member
- Jacek Olszański – Supervisory Board Member
- Mariusz Warych – Supervisory Board Member.

Changes in the Supervisory Board composition in 2018:

On 14 June 2018, the Annual General Meeting of Shareholders of Selena FM S.A. adopted a resolution on appointment of the following Supervisory Board members for a joint three-year term of office:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – independent Supervisory Board Member
- Andrzej Krämer – independent Supervisory Board Member
- Marlena Łubieszko-Siewruk – independent Supervisory Board Member
- Mariusz Warych – independent Supervisory Board Member.

On 7 December 2018, the Supervisory Board of the Company adopted a resolution delegating the duties of the Management Board President to Krzysztof Domarecki for a period not longer than 3 months.

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

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – independent Supervisory Board Member
- Andrzej Krämer – independent Supervisory Board Member
- Marlena Łubieszko-Siewruk – independent Supervisory Board Member
- Mariusz Warych – independent Supervisory Board Member.

On 28 February 2019, Krzysztof Domarecki resigned from the Supervisory Board and from the role of the Chairman of the Supervisory Board effective from 28 February 2019.

On the same day, the Extraordinary General Meeting of Shareholders nominated Andrzej Krämer as the Chairman of the Company's Supervisory Board and appointed Czesław Domarecki to the Supervisory Board.

By the date of publication of this report, no other changes took place in the Supervisory Board's composition.

1.4. Audit Committee and Strategy and Innovation Committee

As at 31 December 2017, the Audit Committee was composed of:

- Mariusz Warych – Chairman of the Audit Committee
- Stanisław Knaflewski – Audit Committee Member
- Jacek Olszański – Audit Committee Member.

Changes in the Audit Committee composition in 2018.

Since 15 June 2018, the Audit Committee has consisted of:

- Mariusz Warych – Chairman of the Audit Committee
- Marlena Łubieszko-Siewruk – Audit Committee Member
- Krzysztof Domarecki – Audit Committee Member.

In the opinion of the Supervisory Board, the Audit Committee, in the aforementioned composition, fulfills the independence criteria and other requirements specified in Article 128(1) and Article 129(1), (3), (5) and (6) of the Statutory Auditors Act.

Since 1 March 2019, the Audit Committee has consisted of:

- Mariusz Warych – Chairman of the Audit Committee
- Andrzej Krämer – Audit Committee Member
- Marlena Łubieszko-Siewruk – Audit Committee Member.

In the opinion of the Supervisory Board, the Audit Committee, in the aforementioned composition, fulfills the independence criteria and other requirements specified in Article 128(1) and Article 129(1), (3), (5) and (6) of the Statutory Auditors Act.

By the date of publication of this report, no changes took place in the the Audit Committee's composition.

In October 2017, the Supervisory Board appointed the Strategy and Innovation Committee. As at 31 December 2017, the Committee was composed of:

- Andrzej Krämer – Chairman of the Strategy and Innovation Committee
- Borysław Czyżak – member of the Strategy and Innovation Committee
- Sylwia Sysko-Romańczuk – member of the Strategy and Innovation Committee.

Since 15 June 2018, the Strategy and Innovation Committee has consisted of:

- Andrzej Krämer – Chairman of the Strategy and Innovation Committee
- Borysław Czyżak – member of the Strategy and Innovation Committee.

By the date of publication of this report, no changes took place in the Strategy and Innovation Committee's composition.

On 15 June 2018, the Supervisory Board of Selena FM S.A. appointed the Nominations and Remuneration Committee consisting of: selena Labs representatives:

- Borysław Czyżak – Chairman of the Nominations and Remuneration Committee
- Marlena Łubieszko-Siewruk – member of the Nominations and Remunerations. Committee

By the date of publication of this report, no changes took place in the Nominations and Remuneration Committee's composition.

2. Information about the financial statements

2.1. Data covered by the financial statements

2.1.1. Identification of the consolidated financial statements

These financial statements are unconsolidated accounts of the Company. For a full understanding of the financial position and trading performance of the Company as a parent of Selena FM Group these financial statements should be read together with the consolidated financial statements of the Group for the year ended 31 December 2018, approved on 25 April 2019.

2.1.2. Period covered by the financial statements

They cover the period of 12 months ended 31 December 2018 and data as at that date.

2.1.3. Comparative data

The income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity cover the data for the 12 months ended 31 September 2018 as well as comparative data for the period of 12 months ended 31 September 2017.

The statement of financial position covers the data presented as at 31 September 2018, and restated comparative data as at 31 December 2017, taking into account correction of the error from previous years, as described in Note 3.1.

2.1.4. Notes

The accounting policy and notes are an integral part of these financial statements.

2.2. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 25 April 2019.

2.3. Going concern

These financial statements have been prepared on the assumption that the Company will continue in operation in the foreseeable future. At the date of approval of these financial statements, no circumstances occurred that would point to a risk to continuity of operations.

2.4. Management Board’s assurance statement on reliability of the financial statements

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the annual financial statements for 2018 have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena FM S.A. and its net profit, and that the Management Board’s report on the activities of Selena FM S.A. in 2018 gives a true picture of the development, achievements and standing of Selena FM S.A., including description of the key risks and threats.

2.5. Measurement and reporting currency

The currency used for measurement and presentation of financials in this report in Polish zloty, and all figures have been presented in PLN thousand, unless specified otherwise.

The currency rates used for measurement of the balance sheet items expressed in foreign currency are presented in the table below.

Ccy	31 December 2018	31 December 2017
1 EUR	4.3000	4.1709
1 USD	3.7597	3.4813
1 TRY	0.7108	0.9235
100 KZT	1.0124	1.0633
1 BRL	0.9687	1.0510

3. Accounting policies

3.1. Basis of preparation and comparability of financial data

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") approved by the EU. The accounting policies described in this note were applied by the Company on a continuous basis for all periods presented, taking into account the correction of previous years' error, as described below, as well as the accounting and measurement principles resulting from the application of IFRS 9 and IFRS 15 as of 1 January 2018.

On 29 March 2017, Selena FM S.A. acquired 64% stake in Uniflex S.p.A., becoming its majority shareholder of the company. In addition, the parties signed a contract containing a symmetrical option regarding the repurchase of the remaining 36% stake from minority shareholders in the future. Details of the transaction are described in Note 16.4 of the unconsolidated financial statements for the year ended 31 December 2017, while the settlement of the acquisition were presented in Note 1.7 of the Group's consolidated financial statements for the year ended 31 December 2017.

In the first half of 2018, Selena FM S.A. carried out another, in-depth analysis of the agreements concluded in 2017 (where the Company's financial statements included the amount to be paid for the call and put options for the same periods and the same price, while in accordance with IAS 39 and IFRS 9 share options in the subsidiary are a derivative that is measured at fair value through profit or loss). As a result of the analysis, a decision was taken to adjust the value of shares of Uniflex S.p.A. disclosed as at 31 December 2017 and, at the same time, the value of liabilities in respect of the call/put option. The correction was intended to clearly and precisely present the essence of the transaction in the unconsolidated financial statements of Selena FM S.A. in accordance with the currently applicable International Financial Reporting Standards. As a result of the adjustment, the value of shares and financial liabilities decreased by PLN 5,320 thousand. Additionally, as at 31 December 2017, the Company valued the identified call/put options at cost (the option purchase price was zero), in line with the possibility indicated in IAS 39, paragraph 46(c) concerning the measurement of equity instruments that do not have a quoted market price in an active market.

As a result of the change, the comparative data have been restated in the statement of financial position and in relevant notes presented in these financial statements.

The following summary shows the impact of the changes and reconciliation between the data published for the year ended 31 December 2017 and those included in this report (selected items of the statement of financial position):

Figures in PLN thousand	Data published 31 December 2017	Adjustments	31 December 2017 restated data*
Shares in subsidiaries	167,030	-5,320	161,710
Non-current assets	**278,053**	**-5,320**	**272,733**
TOTAL ASSETS	**474,181**	**-5,320**	**468,861**
Other financial liabilities	5,800	-5,320	480
Non-current liabilities	**23,316**	**-5,320**	**17,996**
TOTAL EQUITY AND LIABILITIES	**474,181**	**-5,320**	**468,861**

The company does not present the data in the statement of financial position as at 1 January 2017 as the adjustment did not affect these data.

The adjustment had not impact on the data presented in the consolidated financial statements as at 31 December 2017. As at 31 December 2018, the share options of Uniflex S.p.A. were measured, and due to the immateriality of the resulting value, no liability in this respect was recognized in the statement of financial position.

3.2. Impact of new and amended standards and interpretations

Presented below is a list of standards, amendments to the existing standards and interpretations published by the International Accounting Standards Board (IASB) and approved for application in the EU, which for the first time enter into force in the Company's 2018 financial statements:

– IFRS 9 "Financial Instruments"
– IFRS 15 Revenue from Contracts with Customer and amendments to IFRS 15 which clarify certain requirements of the standard
– Amendments to IFRS 2 re classification and measurement of share-based payment transactions
– Amendments to IFRS 4 re application of IFRS 9 with IFRS 4
– Amendments to IAS 40 re transfers of investment property
– Annual amendments to IFRS 2014–2016: clarification of IAS 28 and IFRS 1
– IFRIC 22 re foreign currency transactions and advance consideration

The above amendments to standards, with the exception of IFRS 9 and IFRS 15, will not affect the Company's accounting policy or the financial statements.

Impact of adoption of IFRS 9 on the accounting policy and financial statements of the Company

The Company applied IFRS 9 as of 1 January 2018, without the restated comparative data, which means that data for 2017 and 2018 will not be comparable, while any adjustments related to IFRS 9 were made as of 1 January 2018 and reflected in equity.

The Company disclosed information on the impact of the first time adoption of IFRS 9 in the annual financial statements for the year ended 31 December 2017.

Since 1 January 2018, the Company has classified **financial assets** into the following valuation categories:

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

The Company allocates financial assets to the appropriate category depending on the business model adopted for managing financial assets and considering the characteristics of contractual cash flows for a particular financial asset.

<u>Financial assets measured at amortised cost</u> are debt instruments held to collect contractual cash flows which include only payments of principal and interest. To this category the Company classifies trade receivables, loans granted, other financial receivables and cash and cash equivalents.

Financial assets are measured at amortised cost using the effective interest rate. After initial recognition, trade receivables are measured at amortised cost using the effective interest rate method, including impairment allowances. Any trade receivables maturing within less than 12 months from the date of origination (i.e. without a financing element) and not transferred to factoring, are not discounted and are measured at nominal value.

<u>Financial assets measured at fair value through other comprehensive income</u> are:

- debt instruments whose flows contain only payments of principal and interest, and which are held to collect contractual flows and for sale;
- investments in equity instruments.

Changes in the carrying amount are measured through other comprehensive income, except for impairment losses (gains), interest income and foreign exchange differences and dividends, which are reflected in profit or loss. Assets measured at fair value through other comprehensive income include shares in other entities at the time of initial recognition.

<u>Financial assets measured at fair value through profit or loss</u> are financial instruments which do not meet the criteria for measurement at amortised cost or fair value through other comprehensive income. In the category of assets measured at fair value through profit or loss the Company classifies derivatives, factored trade receivables where the terms of the factoring agreement result in the respective amounts to be no longer treated as receivables, as well as loans which have not passed the SPPI test and dividends.

IFRS 9 did not change the classification of financial liabilities.

The table below presents changes in the classification and measurement of financial assets as at the date of the first adoption of IFRS 9.

Classes of financial instruments	Classification by IAS 39	Classification by IFRS 9
Financial assets		
Loans granted	Loans and receivables	Measured at amortised cost
Forward transactions	Measured at fair value through profit or loss	Measured at fair value through profit or loss
Trade and other receivables	Loans and receivables	Measured at amortised cost
Cash and cash equivalents	Loans and receivables	Measured at amortised cost

Impairment of financial assets

Interest carried at amortised cost

IFRS 9 has introduced a change in the approach to estimating the impairment of financial assets with a shift from the incurred loss model to the expected loss model. The key items of financial assets in the financial statements of the Company, which are subject to changed rules for expected loss calculation, are trade receivables and loans granted. At each balance sheet date, the Company assesses the expected credit losses whether or not there are any indications of impairment.

The Company uses the following models of making impairment allowances for individual items of financial assets:

- **Loans granted and amounts due from connected entities** – the Company performs an individual analysis of all exposures, assigning them to one of three stages:
    i) Stage 1 – where credit risk has not increased significantly since initial recognition and where 12-month expected credit loss (ECL) is recognised.
    ii) Stage 2 – where credit risk has increased significantly since initial recognition and where lifetime ECL is recognised.
    iii) Stage 3 – where the financial asset is credit impaired and where there is no significant credit risk (as the value of liabilities is higher than the balance of loans and receivables).

  Exposures classified to stage 1 or 2 have impairment allowances determined based on an individually set rating, repayment profile and assessment of recovery from collateral.

  For exposures classified to stage 3, the amount of impairment allowance is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future losses on account of uncollected receivables), discounted using the effective interest rate. Impairment allowances are reversed when the present value of the estimated future cash flows is higher than the net assets employed, and a positive balance of payments with the entity concerned is expected to be achieved within the next 12 months.

- **Receivables from other units** – the Company performs a collective analysis of exposures (except for those which are subject to individual analysis as non-performing receivables) and uses a simplified matrix of allowances for individual age ranges based on expected credit losses over the entire life of the receivables, based on default ratios determined using historical data. We have not identified any future factors that would materially affect the level of default rates. The expected credit loss is calculated when the receivable is recognised in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days in arrears.

- **Cash and cash equivalents** – the Company estimates allowances based on the likelihood of default determined using external bank ratings.

At present, the Company does not use hedge accounting.

The table below presents the impact of implementation of IFRS 9 on the Company's unconsolidated financial statements as at 1 January 2018 is as follows:

Figures in PLN thousand	Carrying amount as at 31 December 2017 restated data*	Impact of IFRS 9	Carrying amount as at 1 January 2018
Long-term portion of loans granted	90,953	-746	90,207
Deferred tax asset	82	47	129
Non-current assets	**272,733**	**-699**	**272,034**
Trade receivables	143,958	-9,077	134,881
Current assets	**196,128**	**-9,077**	**187,051**
TOTAL ASSETS	**468,861**	**-9,776**	**459,085**
Retained profit/ loss carried forward	25,822	-9,776	16,046
– retained profit/ loss from previous years	0	-9,776	-9,776
Equity	**292,949**	**-9,776**	**283,173**
TOTAL EQUITY AND LIABILITIES	**468,861**	**-9,776**	**459,085**

* the reasons and effects of the restated data published in earlier periods are described in Note 3.1

Impact of adoption of IFRS 15 on the accounting policy and financial statements of the Company

The Company applied IFRS 15 "Revenue from Contracts with Customers" as of 1 January 2018, using the modified retrospective approach, without adjusting the comparative data.

The Company disclosed information on the impact of the first time adoption of IFRS 15 in the annual financial statements for the year ended 31 December 2017.

The Company applies the principles of IFRS 15 taking into account the 5-step revenue recognition model. The Company recognises revenue when it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Revenue is recognised as an amount corresponding to the transaction price allocated to that performance obligation.

In order to determine the transaction price, the Company takes into account the terms of the contract and the customary business practices. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example certain sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer.

The adoption of IFRS 15 has not had any material impact on the Company's financial statements at the time of the first adoption of the standard, i.e. since 1 January 2018.

The impact on the unconsolidated financial statements of Selena FM S.A. as at 1 January 2018:

- provisions for discounts granted to customers – presentation in the statement of financial position in obligations to return compensation, instead of reducing trade receivables (PLN 623 thousand);
- transport costs, if the Company does not generate a separate revenue from this category – presentation in selling expenses of the income statement rather than in the cost of sales (PLN 500 million).

Based on the analysis of contracts with customers, the Company estimated that the implementation of the IFRS 15 would not have any impact on the Company's equity as at 1 January 2018.

As at 31 December 2018, as a result of implementation of IFRS 15, the Company recognized an obligation to return compensation of PLN 953 thousand. For the year ended 31 December 2018, as a result of the implementation of IFRS 15 with regard to changes in the presentation of transport costs, cost of sales was reduced in correspondence with selling costs (by PLN 380 thousand).

3.3. Standards and interpretations that have already been published and approved by the EU, but have not become effective yet

When approving these financial statements, the Company did not apply the published standards, amendments to existing standards and interpretations before their entry into force. Except the IFRS 16 indicated below, other amendments do not apply to the Company's operations or will not affect the financial statements.

IFRS 16 Leases – effective for annual periods beginning on or after 1 January 2019. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions result in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee.

The lessee will be required to recognise:

(a) assets and liabilities in respect of all lease transactions made for more than 12 months, except where an asset is of low value; and

(b) depreciation of the leased asset separately from interest on the lease liability in the statement of profit or loss.

The principles for accounting for leases established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly.

As at the date of publication of this report, work related to the implementation of the new IFRS 16 standard had been completed. The analysis looked at all finance lease, operating lease, rental and tenancy contracts and other types of contracts previously not carried as leases.

For the purposes of the first-time adoption of the standard, the modified retrospective method was applied and the right-of-use assets was measured in an amount equal to lease liabilities, adjusted by the amount of any prepayments or accrued lease payments referring to leases, recognized in the statement of financial position immediately before the first-time adoption. In accordance with the transitional provisions included in the standard, the new principles will be adopted retrospectively with the first-adoption result reflected in equity as at 1 January 2019. Therefore, comparative data for 2018 will not be restated.

In accordance with the adopted policy, at the moment of initial recognition, right of use assets are measured at cost including:
– initial value of the lease liability
– lease payments made on or before the lease contract date, reduced by any incentives received
– any initial costs incurred by the lessee
– an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

The lease liabilities have been measured based on the present value of lease payments during the lease contract. The payment included in the measurement includes:
– fixed payments less any lease incentives receivable
– variable lease payments that depend on an index or a rate
– amounts expected to be payable by the lessee under residual value guarantees
– the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
– payments of penalties for terminating the lease.

In accordance with IFRS 16, the discount rate was estimated, which is the incremental borrowing rate reflecting the cost of finance that the Company would have to incur to purchase the leased asset. In order to estimate the correct rate, account was taken of the contract type and its duration.

The Company decided to use the following practical expedients provided for in IFRS 16:
– no recognition of right-of-use assets and lease liabilities for contracts involving payments for leases of low-value assets – where the underlying asset has a value not higher than USD 5,000;
– no recognition of right-of-use assets and lease liabilities for short-term contracts (shorter than 12 months, which have no option to purchase the leased asset);
– the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Impact of implementation of IFRS 16 on the data disclosed in the statement of financial position as at 1 January 2019:

Item in the statement of financial position (in PLN '000)	**1 January 2019**
Property, plant and equipment	2,928
Other financial liabilities	2,928

3.4. Standards and interpretations issued by IASB, but not yet approved for application in the EU

IFRS in the form approved by the EU do not differ materially from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to standards and new interpretations, which as at 25 April 2019 were not yet approved for use in the EU:

– Improvements to IFRS 10 and IAS 28 relating to sales or contributions of assets between an investor and its associates/joint ventures
– IFRIC 23 regarding uncertainties about income tax settlement
– IFRS 17 Insurance Contracts
– Amendments to IFRS 9 relating to debt financial assets with a prepayment feature with negative compensation
– Amendments to IAS 28 relating to long-term interests in associates and joint ventures
– Annual amendments to IFRS 2014–2017
– Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
– Amendments to the Conceptual Framework in IFRSs
– Amendments to IFRS 3 relating to definition of a business
– Amendments to IAS 1 and IAS 8 relating to definition of material.

The above-mentioned standards, with the exception of IFRIC 23, amendments to IFRS 9 and amendments to IAS 28, are awaiting approval by the European Union.

3.5. Significant accounting policies

3.5.1. Restatement of foreign currency positions

Transactions expressed in foreign currencies are translated into PLN using the exchange rate current at the transaction date.

At the balance sheet date, the cash assets and liabilities expressed in foreign currency are translated into PLN using the mean rate applicable at the end of the reporting period that has been set by for the particular currency by the National Bank of Poland. The FX differences arising are recognised in finance revenue or expenses as the case may be, or where required by the accounting policy, are capitalised in assets. Non-cash assets and liabilities are carried at historical cost expressed in the foreign currency, stated at the historical rate current at the transaction date. Non-cash assets and liabilities carried at fair value expressed in foreign currency are converted at the rate applicable at the fair measurement date.

3.5.2. Property, plant and equipment

Property, plant and equipment are carried at cost reduced by depreciation and impairment charges. The initial value of fixed assets includes the price of acquisition increased by all the costs directly relating to the purchase and adaptation of the asset for use. The expenditures incurred after the asset has been brought into use, including the maintenance and repair costs, are charged to the profit and loss when incurred.

Depreciation begins when the asset is ready for use and continues until the asset is liquidated or slated for sale. Depreciable value is written off systematically over the useful economic life of the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as per the table below.

Category of tangible fixed assets	Depreciation (in years)
Buildings and structures	from 10 to 40
Plant and machinery	from 3 to 10
Office equipment	from 3 to 5
Vehicles	from 3 to 7
Other fixed assets	from 3 to 7

This method of depreciation reflects consumption of the economic benefits of the asset.

Depreciable assets acquired under finance leases are depreciated over the useful life of the assets if the contract transfer the ownership of the leased asset to the lessee. If the contract does not provide for transfer of the leased asset to the lessee, then the asset is depreciated over the lease term.

Depreciation charges for fixed assets are recognised in profit and loss in the relevant category for the asset.

If in the preparation of the financial statements any circumstances occurred indicating that the carrying amount of the asset may not be recoverable, the asset is tested for impairment. If any indications of impairment have been identified, and the carrying amount exceeds the estimated recoverable amount, then the value of such assets or cash generating units that the assets belong to is reduced to the recoverable amount. The recoverable amount is the higher of the two values: fair value decreased by the cost of sale or value-in-use. When estimating the value-in-use, the estimated future cash flows are discounted to the current value using the discount rate, and before taxation, reflecting the current market estimate for the time value of money and the risks pertaining to the asset. Where an asset does not generate cash flows sufficiently independently, the recoverable amount is determined for the cash generating unit that the asset belongs to. Impairment charges are recognised in the profit and loss account under other operating costs.

A tangible asset may be derecognised after its disposal or if the entity expects no economic benefits from its continued use. Any profits or losses arising from derecognition of the asset (calculated as a difference between the possible net inflows from sale and the carrying amount of the asset) are recognised in the profit and loss in the period when the derecognition took place.

Fixed assets under construction include all the fixed assets that are during construction or assembly and are recognised at cost reduced by impairment charges, if any. Fixed assets under construction are not depreciated until the construction is finished and the asset is brought into use.

The end value, useful life and the depreciation method of the assets are reviewed each year, and if necessary corrections are made, effective from the beginning of the current reporting period.

3.5.3. Borrowing costs

Borrowing costs are capitalised as a part of the cost of generation of a fixed asset. Borrowing costs include interest calculated using the effective interest rate method, financial charges under a finance lease, and FX differences arising from external finance, up to the value of the interest expense correction.

3.5.4. Leases

Financial lease agreements, which substantially transfer all risks and benefits related to holding a leased asset onto the Group, are recognised in the financial situation statement on the lease commencement date according to the lower of the two following values: the fair value of the fixed asset constituting a subject of the lease or the current value of minimal lease payments. The current value of the minimum lease payments is recognized as finance lease liabilities broken down into a short-term portion (payable up to one year) and a long-term portion (payable over a period longer than one year). Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is recognised in profit or loss, unless the capitalisation conditions are met.

Under finance leases, fixed assets are depreciated for the estimated useful life of the fixed asset.

Operating lease

The leases under which the lessor retains substantially all the risks and benefits of ownership are recognised as operating leases. The operating lease fees and the subsequent lease payments are expensed in the profit and loss on a straight-line basis throughout the lease term.

The leases under which the entity retains substantially all the risks and benefits of ownership are recognised as operating leases. The initial direct costs incurred during negotiation of the operating lease agreement are added to the book value of the leased asset and are recognised throughout the lease term on the same rules as the revenues from lease. Any conditional lease fees are recognised as an income in the period when they become due.

3.5.5. Intangible fixed assets

If an intangible asset is acquired separately, it is measured at cost. If an intangible asset is acquired in a business combination, the cost of that intangible asset is based on its fair value at the date of acquisition. After initial recognition, intangible assets are carried at cost less amortisation and impairment. The expenditure on internally generated intangible assets, except the expenditure on development work, is not capitalised and is recognised in the cost of the period when it was incurred.

Intangible assets are amortised throughout the period of their use, and are tested for impairment each time when indications of impairment are identified. The period and method of amortisation of such assets are reviewed at least at the end of each accounting year.

The estimated economic useful life of software licences is 2-5 years.

Changes in the expected life or consumption of economic benefits flowing from the asset are recognised by changing the amortisation period or method, as appropriate, and are treated as changes in estimates. The amortisation write-offs for intangible assets with a limited life are recognised in profit and loss in the item that corresponds to the function of amortised asset.

Useful lives are reviewed each year and if needed are corrected effective from the beginning of the current reporting period.

Any profits or losses arising from derecognition of an intangible asset from the statement of financial position are measured as a difference between the net inflows from sale and the carrying amount of the asset, and are recognised in the profit and loss in the period at the time of the derecognition.

3.5.6. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are carried at historical cost less impairment, if any.

If in the preparation of the financial statements any circumstances occurred indicating that the carrying amount of the shares may not be recoverable, the shares are tested for impairment. If the carrying amount of the shares exceeds the estimated recoverable value, then the value of the shares is reduced to their recoverable value. When estimating the recoverable value, the estimated future cash flows are discounted to the current value using the gross discount rate, reflecting the current market estimate for the time value of money and the risks pertaining to the asset. Impairment charges, if any, are recognised in the profit and loss account under financial expenses.

3.5.7. Financial guarantees

A financial guarantee agreement is an agreement whereby the issuer is require to make payments to the holder to compensate the loss that the holder will incur if the debtor does not make a contractual payment on the terms defined for the particular debt instrument. At the time of initial recognition, the financial obligation on account of the guarantee agreement is measured at fair value. After the initial recognition, the value is measured at the higher of:

- initial value decreased by the amounts recognised in the profit and loss are a result of settlement of the initially recognised amount during the period of the guarantee's validity and an amount estimated in accordance with the expected credit loss model under IFRS 9.
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3.5.8. Inventories

Inventories at the Company are merchandise which is measured at the lower of: cost or net realisable amount. The net realisable amount is estimated as the price of a sale effected in the ordinary course of business, less finishing costs and costs needed to finalise the sale. The closing balance of merchandise is measured by determining its value using the FIFO method.

Expired and defective merchandise
Where merchandise is expired or overdue, no later than at the end of the quarter in which this fact was identified, the Company is required to create an impairment allowance for the value of the merchandise to the net realisable value which is achievable for such merchandise less selling costs. If the merchandise is not suitable for sale at all, the Company should create a provision for the cost of its disposal.

Drop in sales prices below the merchandise value
Where the book value of particular goods or products is lower than the NRV (net realisable value), the value of the merchandise should be reduced to the value of the expected net realisable value). A comparison of the merchandise valuation with the net realisable value should be carried out at least at the end of each year (or more often, if justified), and appropriate adjustments allowance should be made.

Slow moving goods
If the particular index does not move or moves slowly, an impairment allowance is created for the value of the merchandise at the end of each quarter. The merchandise age ranges and its corresponding allowances are as follows:
– over 12 months 50%;
– over 24 months 100%.

3.5.9. Trade and other receivables

Accounting policies for comparative data effective until 31 December 2017, in accordance with IAS 39.

Trade and other receivables are recognised at the originally invoiced amounts or amounts specified in the contract, taking into account the allowance for doubtful accounts (impairment charges). Such allowances are recognised if recovery of the full amount of the receivable is not longer likely.

Where the time value of money plays a role, the value of the receivables is determined by discounting the future cash flows to the present value using the discount rate that reflects the current market estimates of the time value of money. If such discounting method is used, the increase in the value of receivables over time is recognised as a financial revenue.

Receivables from the state are presented as other receivables, except the CIT receivable, which is a separate item on the balance sheet.

Advance payments are presented in accordance with the nature of the assets they pertain to – as fixed or current assets. Advance payments are not discounted as they are non-cash assets.

Accounting policies effective from 1 January 2018, in accordance with IFRS 9

After initial recognition, trade receivables are measured at amortised cost using the effective interest rate method, including impairment allowances. Any trade receivables maturing within less than 12 months from the date of origination (i.e. without a financing element) and not transferred to factoring, are not discounted and are measured at nominal value.

Impairment of trade receivables is described in detail in Note 3.2.

Receivables from the state are presented as other receivables, except the CIT receivable, which is a separate item on the balance sheet.

Advance payments are presented in accordance with the nature of the assets they pertain to – as fixed or current assets. Advance payments are not discounted as they are non-cash assets.

3.5.10. Cash and cash equivalents,

Cash and short-term deposits include cash in bank and cash on hand, and short-term deposits with an original maturity not longer than 3 months.

The balance of cash and cash equivalents presented in the statement of cash flows consists of the items specified above.

The Company classifies cash and cash equivalents as financial assets at amortized cost, taking into account (as of 1 January 2018) impairment allowances determined in accordance with the expected loss model. To estimate the expected loss for cash and cash equivalents, the risk of non-payment has been determined other data, particularly credit worthiness assessment carried out by rating agencies or granted to counterparties as part of the internal credit risk assessment process, adjusted for the assessed probability of default.

The analysis showed that these assets have a low credit risk as at the reporting date. Calculation of the allowance showed that its amount was negligible, so the Company decided not to make an adjustment.

Overdrafts are presented in the statement of financial position as a component of bank and other loans, under short-term or long-term liabilities, as appropriate.

3.5.11. Interest-bearing bank debt, loans and debt securities

At initial recognition, bank debt, loans and debt securities are measured at fair value less the cost of the debt. After the initial recognition, interest-bearing loans and debt securities are then measured at amortised cost on an effective interest rate basis. When determining the amortised cost, one takes into account the cost of obtaining a loan, and the discounts or premiums obtained in connection with the liability. Revenues and expenses are presented in the profit and loss account upon derecognition of the liability from the balance sheet, and as a result of a settlement effected using the effective interest rate.

3.5.12. Financial liabilities and other liabilities

Financial liabilities measured at fair value through profit and loss are measured at fair value taking account of their market value at the balance sheet date, excluding the sale transaction costs. Changes in the fair value of such instruments are reflected in profit or loss.

Financial liabilities measured at amortised cost are the liabilities that are not financial instruments measured at fair value through profit and loss. They are measured using the effective interest rate method.

Trade liabilities are recognised at the amount due.

An expired financial liability is derecognised from the statement of financial position if the obligation stated in the contract has been discharged, cancelled or expired. An exchange of a debt instrument with an instrument with substantially different terms effected between the same entities, is recognised as expiry of the original financial liability and recognition of a new financial liability. Similarly, modification of the terms of an agreement relating to an existing financial liability is recognised as expiry of the original liability and recognition of a new liability. The difference between the respective book values of the exchanged instruments is recognised in profit or loss.

The other non-financial liabilities include in particular liabilities to the tax office on account of VAT and liabilities on account of advance payments received that will be settled through a supply of goods, services or fixed assets. Other non-financial liabilities are recognised at the amount due.

3.5.13. Provisions

Provisions are raised where the entity has an obligation (legal or constructive) are a result of a past event, and it is likely that fulfilment of such obligation will cause an outflow of economic benefits, and the value of such obligation may be reliably estimated. If the entity expects that the costs covered by the provision will be returned, e.g. by the insurer, then the return is recognised as a separate asset, but only when it is practically certain that such a return will be realised. The provision costs are recognised in the profit and loss account less any returns received.

Where the time value of money plays a role, the value of the provision is determined by discounting the future cash flows to the present value using the discount rate that reflects the current market estimates of the time value of money, and the potential risk associated with such obligation. If such discounting method is used, the increase in the value of receivables over time is recognised as a financial revenue.

Provisions are presented as separate items of long-term or short-term liabilities, depending on the nature of the provision.

3.5.14. Retirement benefits

Employees of the companies registered in Poland are given rights to retirement benefits under the Polish Labour Code. A retirement benefit is paid once-off when the employee retires. The value of the benefit depends on the years of service and the average remuneration of the employee.

Where the local law or internal regulations of the company impose on obligation of payment of a retirement benefit, the company makes a provision for future obligations on account of such payments to assign the related costs to their corresponding periods. According to IAS 19, retirement benefits are defined programmes of post-employment benefits. The present value of such obligations is calculated at each balance sheet date. The obligation is equal to the discounted payments that will be made in the future, taking into account the employment turnover, and relating to the period until the balance sheet date. Demographic information and information of staff turnover are based on historical figures.

3.5.15. Revenues

Accounting policies for comparative data effective until 31 December 2017, in accordance with IAS 18.

Sale of finished goods, merchandise and materials

Revenues are recognised if the material risks and benefits arising from the ownership of the goods and products have been transferred to the buyer, and when the revenues may be reliably estimated.

Provision of services

Revenues from provision of services are recognised when the service is performed, at the net value stated in the agreement or on the invoice.

Accounting policy for the current year data in accordance with IFRS 15

Revenue from Contracts with Customers

Adoption of the new IFRS 15 as of 1 January 2018 did not change the recognition of the Group's revenue except for presentation changes (see Note 3.2 for details re adoption of IFRS 15).

Sources of revenues and criteria for recognition of revenues are presented below.

Sale of goods

Revenue from the sale of merchandise and materials are recognized once a performance obligation is satisfied by transferring the promised good (i.e. an asset) to the customer. An asset is transferred once the customer obtains control of that asset.

In the case of the sale of goods, the transfer of control takes place once the ownership and insurance risk are transferred to the customer, which usually takes place upon release from the warehouse.

Goods are delivered to the customer using transport services provided by the Company or by the customer. Where the transport services are provided by the Company, the transport is an element of performance (sale of goods) and does not constitute a separate performance obligation, as control is transferred to the customer once the goods have been delivered to the customer's warehouse.

Where different goods or services are sold under one contract, the consideration should be allocated to each of the obligations. The Company has no material contracts with more more than one performance obligation.

The Company recognizes revenue from the sale of goods at the transaction price received in return for the goods transferred. The transaction price is the expected price to be received, to the extent it is highly likely that there will be no significant reduction in revenues in the future, after deduction of volume discounts/rebates.

Provision of services

Revenues from provision of services are recognised when the service is performed and are accounted for as at the end of each accounting period, which is normally longer than a quarter, at the net amount stated in the agreement or on the invoice.

3.5.16. Taxes

Current tax

Liabilities and receivables arising from the tax for the current period and the previous periods are measured at the amount of the expected payment to the revenue authorities (refundable by the revenue authorities) using the tax rates and tax legislation that legally or actually applied at the balance sheet date.

Deferred income tax

Deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
A deferred tax liability is recognized in relation to all positive temporary differences, except when the deferred tax liability arises as a result of initial recognition of a goodwill or an initial recognition of an asset or liability in a transaction other than business combination, and at the time of the transaction it did not have any impact on the PBT or taxable income or tax loss, and

-
- in the case of positive temporary differences arising from investments in subsidiaries or associates, and shares in joint ventures – except when the dates of reversal of the temporary differences are controlled by the investor and it is likely that in the foreseeable future the temporary differences will not be reversed.

Deferred tax assets are recognised for all the negative temporary differences, also for unutilised tax reliefs and unutilised tax losses carried to subsequent years, in the amount of the likely taxable income that will be generated to use the differences, assets and losses,

- except when the deferred tax assets relating to negative temporary differences are a result of initial recognition of a goodwill or an initial recognition of an asset or liability in a transaction other than business combination, and at the time of the transaction it did not have any impact on the PBT or taxable income or tax loss, and
- in the case of negative temporary differences from investments in subsidiaries or associates, or shares in joint ventures, the deferred tax asset is recognised in the balance sheet at the amount of the likely income arising in the foreseeable future from reversal of the temporary differences, allowing for the negative temporary differences to be covered.

The book value of the deferred tax asset is reviewed at each balance sheet date and is appropriately reduced to reflect the lower likelihood of receipt of a taxable income that would allow to cover, partly or in full the realisation of the deferred tax asset. The unrecognised deferred tax asset is revisited at each balance sheet date and is recognised up to the value that reflects the likelihood of future taxable income that will allow the asset to be recovered.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply in the period when the asset or liability is realised. The measurement is based on the tax rates (and legislation) applicable at the balance sheet date or such rates/legislation which, at the balance sheet date, are certain to apply in the future.

A taxable income for the items recognised outside of a profit or loss, is recognised outside of a profit or loss: in other comprehensive income for the items presented in other comprehensive income, or directly in equity for the items recognised directly in equity.

Deferred tax assets are set off against deferred tax liabilities only where there is a legal title for the set-off between the current tax receivable and payable, and the deferred tax relates to the same taxpayer and the same tax authority.

VAT

Revenues, expenses, assets and liabilities are recognised net of VAT, except where:

- the VAT paid at the acquisition of assets or services cannot be recovered from the tax authorities; then such VAT is recognised as a part of the price of the assets or as a part of the cost item, and
- the receivables and liabilities that are recognised together with the VAT.

The net amount of the VAT that can be recovered or that is due to the tax authorities is recognised in the statement of financial position as a part of receivables or liabilities.

3.5.17. Net profit per share

Net profit per share for each period is calculated by dividing the net profit for the period by the weighted average number of shares in the particular reporting period.

The diluted profit per share is calculated by dividing the net profit for the period attributable to the shareholders of the parent by the weighted average number of outstanding ordinary shares during the period, increased by the weighted average number of ordinary shares that would have been issued if the potential ordinary shares were converted into shares.

4. Significant values based on professional judgement and estimates

4.1. Professional judgement

In addition to the accounting estimates, professional judgement of the management was of key importance in the process of application of the accounting policies to the areas outlined below.

Classification of lease agreements

The Group classifies leases as operating or finance leased based on the estimated distribution of risks and rewards from the leased asset between the lessor and the lessee. Such evaluation is based on the economic substance of the individual transactions.

4.2. Uncertainty of estimates

Below is a presentation of the key assumptions relating to the future and other key sources of uncertainty existing at the balance sheet date, giving rise to a material risk of a significant correction to the carrying amounts of assets and liabilities in the next financial year.

Impairment of long-term equity investments

The Company tests its long-term investments for impairment. This exercise requires that the value in use of the cash-generating units (CGU) be estimated. The value in use is estimated by determining the future cash flows generated by the CGU based on the financial plans, and by determining the discount rate for calculation of the present value of such cash flows. Information on the adopted assumptions and results of impairment tests are presented in Note 14.

Impairment of financial assets

Impairment of financial assets is described in detail in Note 3.2. At each balance sheet date, the Company assesses the expected credit losses whether or not there are any indications of impairment.

Deferred tax assets

The likelihood of using deferred tax assets against future tax gains is based on the budget of the Company's companies. The Company recognizes in its books deferred tax assets up to the amount in which it is probable that they will achieve a taxable profit against which deductible temporary differences might be applied.

5. Operating segments

The Management Board treats the Company's activity as a single operating segment, hence the Company does not present separate financials for operating and reporting segments.

See Note 1.1 of this report for a description of the Company's activities. Among its other roles, Selena FM S.A. acts as a global distributor – in the Group, it intermediates in goods transactions between production plants and foreign trading organisations; it is also a managing entity of the Group. Financial results on all businesses are analysed jointly as an effect of operation of the Group's head office and are not a basis for taking decisions on resource allocation within the Company or within the Group's operating segments.

The Company's trading performance is assessed based on the management data prepared in accordance with IAS/IFRS.

Related parties accounted for more than 92% of the Company's revenues (more than 94% in 2017).

Sales are generated in Poland (PLN 1.1 million to non-connected companies and PLN 117.3 million to connected companies) and abroad, mainly in the geographies where the Group-owned companies are located. The Company's tangible assets are located in Poland.

The Company is not dependant on any single buyer. The turnover with any non-connected buyer does not exceed 10% of the Company's total revenue. Due to the nature of operations of the Company as a parent of the Group, sales are generated depending on its subsidiaries' demand for goods and services, so they are not a major contributor to the assessment of the Company's operating efficiency.

6. Operating costs

6.1. Costs by type

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Use of materials and energy	840	750
Cost of employee benefits	23,529	21,504
Depreciation/ amortisation	3,476	2,823
External services, including:	32,884	31,941
advisory	24,145	22,984
lease, rental	3,466	3,286
other	5,273	5,671
Taxes and charges	94	79
Other costs by type, including:	2,346	2,545
entertainment and advertising costs	224	262
business travel costs	1,611	1,785
Cost of goods and materials sold	397,447	423,935
Cost of services sold	25,490	27,061
Total operating costs	**486,106**	**510,638**
including:		
Cost of sales	422,937	450,996
Selling and marketing costs	34,462	30,432
General and administrative expenses	28,707	29,210

6.2. Cost of employee benefits

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Salaries	19,966	18,256
Social insurance costs	2,880	2,641
Other costs of employee benefits	683	607
Total cost of employee benefits	**23,529**	**21,504**
including:		
Selling and marketing costs	11,930	10,066
General and administrative expenses	11,599	11,438

6.3. Depreciation/amortisation

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Depreciation of tangible assets	1,318	1,159
Amortisation of intangible assets	2,158	1,664
Total depreciation/amortisation	**3,476**	**2,823**
including:		
Selling and marketing costs	322	328
General and administrative expenses	3,154	2,495

7. Other operating revenues and operating costs

7.1. Other operating income

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Profit from disposal of non-financial fixed assets	64	62
Reversal of an impairment charge on receivables	N/A*	27,879
Compensations, complaints	399	302
Other	93	124
Total other operating income	**556**	**28,367**

*In line with the changes resulting from implementation of the new IFRS 9 standard on 1 January 2018, the result related to impairment of financial receivables is presented in the income statement under "Impairment/ reversal of impairment of financial receivables" in Other operating activities.

7.2. Other operating costs

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Impairment charge for receivables	N/A*	4,907
Donations	18	25
Trade receivables cancelled/written off	141	59
Damages, penalties, fines	451	478
Obligations to former owners of Industrias Qumicas Lowenberg (Note 21)	860	0
Other	59	35
Total other operating costs	**1,529**	**5,504**

*In line with the changes resulting from implementation of the new IFRS 9 standard on 1 January 2018, the result related to impairment of financial receivables is presented in the income statement under "Impairment/ reversal of impairment of financial receivables" in Other operating activities.

8. Financial revenues and expenses

8.1. Financial revenues

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Dividends and profit sharing	26,528	8,031
Interest, including:	7,326	9,412
on bonds and loans granted	*7,321*	*9,363*
on discount of financial obligations	*0*	*49*
Valuation of currency contracts	16	1,209
Reversal of an impairment charge on loans	N/A*	3,334
Cancellation of shares	0	63,912
Other financial revenues	224	197
Total financial revenues	**34,094**	**86,095**

*In line with the changes resulting from implementation of the new IFRS 9 standard on 1 January 2018, the result related to impairment of financial receivables is presented in the income statement under "Impairment/ reversal of impairment of loans granted" in Other operating activities.

On 14 June 2018, the Annual General Meeting of the subsidiary Selena S.A. adopted a resolution on payment of dividend of PLN 17,006,570.88 from the profit for 2017 to its sole shareholder, i.e. Selena FM S.A. The dividend was paid by a funds transfer on 26 June 2018.

On 25 June 2018, the Annual General Meeting of the subsidiary Selena Industrial Technologies Sp. z o.o. adopted a resolution on payment of dividend of PLN 9,521,144.15 thousand from the profit for 2017 to its sole shareholder, i.e. Selena. FM S.A. The dividend was paid by a funds transfer on 18 July 2018.

8.2. Financial expenses

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Interest, including:	3,231	4,207
on loans and advances received	*3,140*	*4,093*
on finance lease liabilities	*89*	*111*
on other obligations	*2*	*3*
Loans written off**	*27,341*	*0*
Impairment charge for the value of shares	0	15,771
Impairment charge for loans	N/A*	44,072
FX differences	1,149	13,584
Other financial expenses	654	194
Total financial expenses	**32,375**	**77,828**

*In line with the changes resulting from implementation of the new IFRS 9 standard on 1 January 2018, the result related to impairment of financial receivables is presented in the income statement under "Impairment/ reversal of impairment of loans granted" in Other operating activities.

** On 11 December 2018, the Management Board of Selena FM S.A adopted a resolution whereby it agreed to write off the loans granted by Selena FM S.A. to the subsidiary Selena Nantong Building Materials Co. Ltd in the total amount of PLN 27,341 thousand, including:

- write off of principal of PLN 25,999 thousand and write-off of interest of PLN 2,242 thousand.
-

9. Income tax

9.1. Tax charge

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Income tax for the current period	771	435
Change in deferred income tax	224	-2,177
Debit/ credit (-) carried in profit or loss:	**995**	**-1,742**

9.2. Reconciliation of the effective tax rate

The table below shows reconciliation of the tax on the pre-tax profit at the statutory rate with the income tax calculated at the effective tax rate of the Company.

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Profit / loss before tax on continued operations	31,510	24,080
Tax rate	19%	19%
Tax at the applicable rate	5,987	4,575
Tax on non-taxable income (permanent differences)	-6,852	-19,523
– on dividends received	-5,040	-1,526
- in respect of cancellation of shares in a subsidiary	0	-12,143
– in respect of impairment charge for shares and loans	-131	-633
– in respect of reversal of impairment charge for receivables	-1,679	-5,221
– other	-2	0
Tax on costs that are non-tax deductible (permanent differences)	1,860	13,206
– in respect of impairment charge on shares and loans	91	11,370
– in respect of impairment charge on receivables	395	910
– other	1,374	926
Debit/ credit (-) carried in profit or loss:	**995**	**-1,742**
Effective tax rate	3.16%	-7.23%

9.3. Deferred income tax

Deferred tax asset

Figures in PLN thousand	31 December 2018	Charge/credit to the financial result	1 January 2018	31 December 2017	Charge/credit to the financial result
Deferred tax asset on temporary differences in assets	*572*	*311*	*214*	*214*	*-84*
Impairment charge on trade receivables	*480*	*236*	*244**	*197*	*-54*
Unrealised sales on Incoterms	*92*	*75*	*17*	*17*	*-30*
Deferred tax asset on negative temporary differences in liabilities	*1,474*	*658*	*817*	*817*	*65*
Liability in respect of unpaid remuneration	*206*	*0*	*206*	*206*	*61*
Provision for the cost of audit	*16*	*-12*	*28*	*28*	*4*
Provision for the cost of unutilised leaves	*136*	*-13*	*149*	*149*	*4*
Other accruals	*618*	*461*	*157*	*157*	*-24*
Interest payable	*57*	*28*	*29*	*29*	*29*
Retirement provision	*29*	*29*	*0*	*0*	*0*
Provision for the loyalty scheme	*180*	*62*	*118*	*118*	*70*
Lease liabilities	*232*	*102*	*130*	*130*	*-70*
Guarantees granted	*0*	*1*	*0*	*0*	*-9*
Deferred tax asset on unrealised FX differences	*1,421*	*95*	*1,326*	*1,326*	*1,326*
Total deferred tax asset	**3,467**	**1,064**	**2,357**	**2,357**	**1,307**
Deferred tax asset less liability				82	

**The impact of IFRS 9 on deferred tax asset is described in Note 3.2

Figures in PLN thousand	31 December 2018	Charge/credit to the financial result	31 December 2017	Charge/credit to the financial result
Deferred tax liability on positive temporary differences relating to assets	*3,563*	*1,296*	*2,267*	*890*
Net value of fixed assets under lease	*265*	*16*	*249*	*-60*
Difference between the net carrying amount and tax value of non-current assets	*427*	*197*	*230*	*230*
Interest on loans granted, accrued and outstanding	*2,871*	*1,083*	*1,788*	*729*
Interest on bonds, accrued and outstanding	*0*	*0*	*0*	*-9*
Deferred tax liability on positive temporary differences relating to liabilities	*0*	*-8*	*8*	*-668*
Obligations in respect of bonuses received in the following financial year	*0*	*-8*	*8*	*-668*
Deferred tax liability on unrealised FX gains	*0*	*0*	*0*	*-1,092*
Deferred tax liability	**3,563**	**1,288**	**2,275**	**-870**
Deferred tax liability less asset	*96*			
Change in deferred tax reflected in net profit		**224**		**-2,177**

Dates of utilisation of deferred tax assets (liabilities) were as follows:

Figures in PLN thousand	31 December 2018	31 December 2017
Period of utilisation > 12 months since the end of the reporting period	*141*	*30*
Period of utilisation < 12 months since the end of the reporting period	-237	52

10. Dividend paid and proposed

On 14 June 2018, the AGM of Selena FM S.A. adopted a resolution on dividend payment in respect of a part of the Parent Company's profit for 2017 in a total amount of PLN 6,850,200.00, i.e. PLN 0.30 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 16 July 2018. The shares of all series carry the same dividend rights. The dividend was paid on 12 July 2018.

11. Property, plant and equipment

The tables below show the gross value, depreciation and net value of tangible assets as at the balance sheet date.

Figures in PLN thousand	Buildings and premises	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2018	**124**	**3,799**	**3,580**	**393**	**0**	**7,896**
increases, including:	0	398	911	5	301	1,615
Direct purchase	*0*	*150*	*0*	*0*	*264*	*414*
Leases	*0*	*0*	*0*	*0*	*1,201*	*1,201*
Settlement of fixed assets under construction	*0*	*248*	*911*	*5*	*-1,164*	*0*
Decreases, including:	0	412	573	222	0	1,207
Liquidation, sale	*0*	*412*	*573*	*222*	*0*	*1,207*
Gross value as at 31 December 2018	**124**	**3,785**	**3,918**	**176**	**301**	**8,304**
Write-off as at 1 January 2018	**79**	**2,434**	**2,261**	**338**	**0**	**5,112**
increases, including:	15	694	577	32	0	1,318
Depreciation for the period	*15*	*694*	*577*	*32*	*0*	*1,318*
Decreases, including:	0	412	329	222	0	963
Liquidation, sale	*0*	*412*	*329*	*222*	*0*	*963*
Write-off as at 31 December 2018	**94**	**2,716**	**2,509**	**148**	**0**	**5,467**
Net value as at 1 January 2018	**45**	**1,365**	**1,319**	**55**	**0**	**2,784**
Value as at 31 December 2018	**30**	**1,069**	**1,409**	**28**	**301**	**2,837**

Figures in PLN thousand	Buildings and premises	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2017	**88**	**2,502**	**3,650**	**388**	**906**	**7,534**
increases, including:	36	1,307	180	5	-906	622
Direct purchase	*0*	*0*	*0*	*0*	*442*	*442*
Leases	*0*	*0*	*0*	*0*	*180*	*180*
Settlement of fixed assets under construction	36	1,307	180	5	-1,528	0
Decreases, including:	0	10	250	0	0	260
Liquidation, sale	*0*	*10*	*250*	*0*	*0*	*260*
Gross value as at 31 December 2017	**124**	**3,799**	**3,580**	**393**	**0**	**7,896**
Write-off as at 1 January 2017	**70**	**1,836**	**2,008**	**300**	**0**	**4,214**
increases, including:	9	608	504	38	0	1,159
Depreciation for the period	*9*	*608*	*504*	*38*	*0*	*1,159*
Decreases, including:	0	10	251	0	0	261
Liquidation, sale	*0*	*10*	*251*	*0*	*0*	*261*
Write-off as at 31 December 2017	**79**	**2,434**	**2,261**	**338**	**0**	**5,112**
Net value as at 1 January 2017	**18**	**666**	**1,642**	**88**	**906**	**3,320**
Value as at 31 December 2017	**45**	**1,365**	**1,319**	**55**	**0**	**2,784**

In 2018 and 2017, financing costs were not capitalised into tangible assets.

12. Intangible fixed assets

The tables below show the gross value, depreciation and net value of intangible assets as at the balance sheet date.

Figures in PLN thousand	Software	Other intangible assets	Intangible assets not brought into use	Total
Gross value as at 1 January 2018	**21,774**	**152**	**2,396**	**24,322**
increases, including:	283	0	471	754
Direct purchase	*0*	*0*	*754*	*754*
Settlement against assets under development	*283*	*0*	*-283*	*0*
Decreases, including:	9	0	0	9
Liquidation, sale	*9*	*0*	*0*	*9*
Gross value as at 31 December 2018	**22,048**	**152**	**2,867**	**25,067**
Write-off as at 1 January 2018	**6,983**	**135**	**0**	**7,118**
increases, including:	2,156	*1*	*1*	2,158
Depreciation for the period	*2,156*	*1*	*1*	*2,158*
Decreases, including:	9	0	0	9
Liquidation, sale	*9*	*0*	*0*	*9*
Write-off as at 31 December 2018	**9,130**	**136**	**1**	**9,267**
Net value as at 1 January 2018	**14,791**	**17**	**2,396**	**17,204**
Value as at 31 December 2018	**12,918**	**16**	**2,866**	**15,800**

A significant part of the net value of software as at 31 December 2018 is represented by the ERP system – Microsoft Dynamics AX 2012 in the area relating to the system dedicated for Poland: PLN 12,357 thousand (PLN 14,416 thousand as at 31 December 2017). The system was deployed in March 2017, and 31 December 2024 was adopted at the end of its useful life.

Figures in PLN thousand	Software	Other intangible assets	Intangible assets not brought into use	Total
Gross value as at 1 January 2017	**5,814**	**152**	**17,950**	**23,916**
increases, including:	15,960	0	-15,554	406
Direct purchase	*0*	*0*	*406*	*406*
Gross value as at 31 December 2017	**21,774**	**152**	**2,396**	**24,322**
Write-off as at 1 January 2017	**5,321**	**133**	**0**	**5,454**
increases, including:	1,662	2	0	1,664
Depreciation for the period	*1,662*	*2*	*0*	*1,664*
Write-off as at 31 December 2017	**6,983**	**135**	**0**	**7,118**
Net value as at 1 January 2017	**493**	**19**	**17,950**	**18,462**
Value as at 31 December 2017	**14,791**	**17**	**2,396**	**17,204**

13. Shares in subsidiaries

13.1. Company's investments

Entity	Reg. Office	Activity	Share in capital		
			31 December 2018	31 December 2017	
Selena S.A.	Wrocław	Distributor	100.00%	100.00%	
Selena Labs Sp. z o.o.	Siechnice	Research and Development	99.65%	99.65%	1
Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100.00%	100.00%	
Selena Industrial Technologies Sp. z o.o.	Warsaw	Operational administration	100.00%	100.00%	
Selena Deutschland GmbH	Hagen	Distributor	100.00%	100.00%	
Selena Italia srl	Limena	Distributor	100.00%	100.00%	
Selena Iberia slu	Madrid	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	
Uniflex S.p.A.	Mezzocorona	Manufacturer of sealants, distributor	64.00%	-	4
Selena USA Inc.	Holland	Distributor	100.00%	100.00%	
Selena Sulamericana Ltda	Curitiba	Manufacturer of foams, distributor	95.00%	95.00%	3
Selena USA Specialty Inc	Holland	Property management and distribution	100.00%	100.00%	
Selena Romania SRL	Ilfov	Distributor	100.00%	100.00%	
Selena Bohemia s.r.o	Prague	Distributor	100.00%	100.00%	
Selena Hungária Kft.	Pécs	Distributor	100.00%	100.00%	
Selena Bulgaria Ltd.	Sofia	Distributor	100.00%	100.00%	
EURO MGA Product SRL	Ilfov	Manufacturer of loose materials	0.13%	0.13%	2
Selena Ukraine Ltd.	Kiev	Distributor	99.00%	99.00%	3
Selena CA L.L.P.	Almaty	Distributor	100.00%	100.00%	
Selena Insulations	Astana	Manufacturer of insulation systems	100.00%	100.00%	
Weize (Shanghai) Trading Co., Ltd.	Shanghai	Distributor	100.00%	100.00%	
Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer of foams, distributor	100.00%	100.00%	
Selena Vostok	Moscow	Distributor	99.00%	99.00%	4
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Man. of foams and sealants, distributor	100.00%	100.00%	

1. Other shares owned by Krzysztof Domarecki (Management Board President of Selena FM S.A.)
2. Other shares owned by subsidiary Selena Romania SRL
3. Other shares owned by subsidiary Selena S.A.
4 Other shares owned by natural persons

13.2. Value of shares

The table below shows a specification of the shares held by the Company in its subsidiaries.

	31 December 2018			31 December 2017 restated data**			
Figures in PLN thousand	**Gross**	**Write-down**	**Net**	**Gross**	**Write-down**	**Net**	
Selena S.A.	62,781	0	**62,781**	62,781	0	**62,781**	
Selena Labs Sp. z o.o.	1,400	0	**1,400**	1,400	0	**1,400**	
Carina Sealants Sp. z o.o.	8	0	**8**	8	0	**8**	
Selena Industrial Technologies Sp. z o.o.	38,379	0	**38,379**	38,379	0	**38,379**	
Selena Deutschland GmbH	4	0	**4**	4	0	**4**	
Selena Italia srl	1,884	1,884	**0**	1,884	1,884	**0**	
Selena Iberia slu	43,478	22,913	**20,565**	43,478	22,913	**20,565**	
Uniflex S.p.A.	7,109	0	**7,109**	7,109	0	**7,109**	**
Selena USA Inc.	1,289	1,289	**0**	1,289	1,289	**0**	
Selena Sulamericana Ltda	3,594	3,594	**0**	3,594	3,594	**0**	
Selena USA Specialty Inc	2,418	1,118	**1,300**	2,418	1,118	**1,300**	
Selena Romania SRL	11,944	11,944	**0**	11,944	11,944	**0**	
Selena Bohemia s.r.o	9,936	0	**9,936**	9,936	0	**9,936**	
Selena Hungária Kft.	679	679	**0**	679	679	**0**	
Selena Bulgaria Ltd.	0	0	**0**	0	0	**0**	*
EURO MGA Product SRL	1	0	**1**	1	0	**1**	
Selena Ukraine Ltd.	0	0	**0**	0	0	**0**	*
Selena CA L.L.P.	9,029	0	**9,029**	9,029	0	**9,029**	
Selena Insulations	1,206	1,206	**0**	1,206	1,206	**0**	
Weize (Shanghai) Trading Co., Ltd.	0	0	**0**	0	0	**0**	*
Selena Nantong Building Materials Co., Ltd.	33,910	33,910	**0**	33,910	33,910	**0**	
Selena Vostok	11,197	0	**11,197**	11,197	0	**11,197**	
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	23,765	23,764	**1**	23,765	23,764	**1**	
Value of shares	**264,011**	**102,301**	**161,710**	**264,011**	**102,301**	**161,710**	

* value of shares below PLN 400
** the reasons and effects of the restated data published in earlier periods are described in Note 3.2.1

13.3. Change in the structure of shares after the balance sheet date

On 1 January 2019, Selena USA Inc. merged (as acquiring company) with Selena USA Speciality Inc. (acquired company). Under the agreement of 31 December 2018 the acquired company's share capital was transferred in full to the acquiring company. As a result of the merger, the company was deregistered.

13.4. Impairment charges on the value of shares

Details about the impairment tests for the value of shares in subsidiaries completed in 2018 are presented in Note 14 to this report. The tests carried out did not show the necessity to post impairment allowances on shares in the separate financial statements of Selena FM S.A.
In 2017, as a result of impairment tests for the value of shares in subsidiaries, allowances of PLN 15,771 thousand were created, including:

- Selena Malzemeleri Yapi Sanayi Tic. Ltd. – PLN 10,971 thousand
- Selena Sulamericana – PLN 3,594 thousand
- Selena Insulations – PLN 1,206 thousand.

14. Impairment of long-term investments;

At least on the date of preparation of the financial statements, the Company verifies the carrying amount of financial assets (shares in subsidiaries) to determine whether these assets do not show indications of impairment. To this end, the Company compares the value of net assets of individual entities with the book value of the shares presented in the balance sheet.

Where the carrying amount of shares is not covered by the net assets of a given entity, the Company further checks for indications of impairment of the assets. The Company evaluates internal and external factors affecting the financial results achieved by subsidiaries (and verifies implementation of the budget plans adopted for the particular financial year). In addition, the Company analyzes micro- and macroeconomic factors, including the impact of exchange rate fluctuations and the cost of capital in the markets where the subsidiaries operate. Impairment allowance for the value of shares in subsidiaries is defined as the difference between the value of these assets resulting from books of account as at the valuation date and the present value of expected future cash flows, discounted using the effective interest rate. For such measured value of future discounted cash flows, the Company additionally performs a sensitivity analysis to see the impact of changes in the effective interest rate and of exchange rate fluctuations. The value of assets is restated only when it is determined that the impairment of shares is permanent and irreversible in the long term.

As at 31 December 2018, the Company carried out an impairment test for shareholdings in relation to: Nantong Building Materials Co., Ltd and EURO MGA Products srl. There were no indications that would prompt an impairment test for shares in relation to other companies.

14.1. Shares and long term loans in Selena Nantong Building Materials Co. Ltd

Due to the slower-than-planned increase in the value of sales of Selena Nantong Building Materials Co., Ltd as well as revision of its business plans, as at 31 December 2018, the Management Board carried out an impairment test for the entity's fixed assets. Based on the projected future cash flows generated by the company, no need was identified to create an additional impairment charge for the assets invested in Selena Nantong. In the prior years, an impairment charge of PLN 33,910 thousand was posted for shares and PLN 26,523 thousand for the loans granted to the company (values converted at the historical rate), and in 2018 loans of PLN 27,341 thousand were written off and the impairment allowance of PLN 21,130 thousand created for the written off loans was reversed.

Given the long-term nature of the investment, the test was based on a 6-year cash flow forecast. For the purpose of the test, WACC before tax was taken at 9.5% and the residual growth rate at 2.5%.

Future cash flow projections take into account the positive impact of the restructuring programmes carried out by the entity's Management Board, involving modification of the distribution and operations model, particularly in the local market and implementation of a new product proposition, with the involvement of business parters. The purpose of the cooperation with the Chinese partner will be to invigorate activities in China by marketing innovative construction chemicals based on the product portfolio of Selena Group. If any material, negative deviations occur from the adopted action plan, in the future reporting periods it might be necessary to post an impairment write-down on the fixed assets of Selena Nantong.

The test also did not show a need to create an additional impairment charge in the Group's consolidated report in respect of the value of the assets invested in Selena Nantong Building Materials Co., Ltd.

14.2. Selena Romania srl and EURO MGA Product srl

As the Romanian company failed to achieve the expected sales levels in 2018, and due to the slower-than-expected growth of the dry mortars, wet plasters and ceramic adhesives divisions, the Management Board performed an impairment test for the assets invested in Selena Romania srl and EURO MGA Product srl (a subsidiary of Selena Romania srl), in accordance with IAS 36 "Impairment". In the prior years, an impairment charge was posted for the value of shares and long-term loans in their full amount. As at 31 December 2018, all the long-term assets invested in Selena Romania srl and EURO MGA Product srl were covered by impairment charges.

The test used a 5-year cash flow projection: For the purpose of the test, WACC before tax was taken at 10.7% and the residual growth rate at 2.5%.

Future projections of cash flows include current operations in the Romanian market. particularly in the area of dry mortars and wet plasters, focused on implementation of innovative products and a further development of distribution combined with optimisation of production and logistics costs.

The test described above, carried out as 31 December 2018, pointed to a need to create an additional impairment charge in the Group's consolidated financial statements in relation to the property, plant and equipment for production and sales in the Romanian, in an amount of RON 7,330 thousand. As a result of a previous test carried out as at 30 June 2018, an impairment allowance of RON 2.793 thousand was created in the Group's consolidated financial statements on property, plant and equipment of the Romanian subsidiaries. The total impairment allowances for items of property, plant and equipment of the Romanian subsidiaries, posted in 2018 in the Group's consolidated financial statements, was PLN 9,278 thousand.

14.3. Assumptions of the impairment models

Assumptions of the cash flow models for the purpose of impairment tests are presented in the table below (it includes the tests where the Management Board estimated could materially affect the value of potential impairment losses).

CGU	**Selena Nantong**	**Selena Romania + EURO MGA**
WACC before tax	9.5%	10.7%
Residual growth rate	2.5%	2.5%
Impairment	none	none
Model sensitivity - impairment amount at:		
WACC before tax increased by 1 p.p.	*no charge*	*no charge*
residual growth rate reduced by 1 p.p.	*no charge*	*no charge*
EBIT margin reduced by 1 p.p.	*no charge*	*no charge*

15. Loans granted and other financial assets

15.1. Loans granted and other financial assets

Selena FM, as a Parent of the Group, finances the operations of its subsidiaries. The financing instruments are intercompany loans.

A summary of changes in the balance of such instruments in 2018 is shown in the table below.

Type of connection Figures in PLN thousand		31 December 2017	Impact of IFRS 9	1 January 2018	Principal Loans granted	Principal Repayment	Principal Write-off	Interest Accrued	Interest Paid	Interest Written off	Interest Withholding tax	FX differences arising on balance sheet valuation	31 December 2018
	Loans												
Subsidiaries	*Gross value*	224,893	0	224,893	32,977	-11,115	-25,099	7,320	-1,538	-2,241	-477	-2,064	222,656
	Impairment (-)/ reversal of impairment	-119,361	-746	-120,107	-439	650	21,130	0	0	0	0	-803	-99,569
	Net value	105,532	-746	104,786	32,538	-10,465	-3,969	7,320	-1,538	-2,241	-477	-2,867	123,087
Non-connected entities	Loans	49	0	49	0	0		1	-2		0	0	48
	Valuation of derivatives	309	0	309	0	-32		0	0		0	0	277
TOTAL		**105,890**	**-746**	**105,144**	**32,538**	**-10,497**	**-3,969**	**7,321**	**-1,540**	**-2,241**	**-477**	**-2,867**	**123,412**
including long-term:		*90,953*	*-746*	*90,207*									*98,364*

Comparative data for 2017 are presented in the table below.

Type of connection Figures in PLN thousand		31 December 2016	Principal Granted	Principal Repaid	Interest Accrued	Interest Paid	Withholding tax	FX differences arising on balance sheet valuation	Impairment charge	31 December 2017
	Loans									
Subsidiaries	*Gross value*	195,541	58,100	-26,048	5,947	-5,407	-782	-19,175	16,717	224,893
	Impairment charge	-70,134	-44,072	3,334	0	0	0	8,228	-16,717	-119,361
	Net value	125,407	58,100	-26,048	5,947	-5,407	-782	-19,175	-49,227	105,532
Other connected entities	Bonds	60,396	0	-60,350	3,413	-3,459	0	0	0	0
	Loans	71	0	-25	3	0	0	0	0	49
Non-connected entities	Valuation of derivatives	10	0	0	0	0	0	299	0	309
TOTAL		**185,884**	**58,100**	**-86,423**	**9,363**	**-8,866**	**-782**	**-18,876**	**-49,227**	**105,890**
including long-term:		*119,858*								*90,953*

15.2. Maturities of the loans granted and other financial assets

Due date 31 December 2018 (figures in PLN thousand)		below 1 year	1-3 years	Above 3 years	Total
Subsidiaries	Loans	24,724	21,125	77,239	**123,088**
Non-connected entities	Loans	48	0	0	**48**
Non-connected entities	Valuation of forward transactions	277	0	0	**277**
TOTAL		**25,049**	**21,125**	**77,239**	**123,413**

Due date 31 December 2017 (figures in PLN thousand)		below 1 year	1-3 years	Above 3 years	Total
Subsidiaries	Loans	14,624	62,569	28,339	**105,532**
Non-connected entities	Loans	4	45	0	**49**
Non-connected entities	Valuation of forward transactions	309	0	0	**309**
TOTAL		**14,937**	**62,614**	**28,339**	**105,890**

15.3. Loans to subsidiaries – changes during the year

In 2018, Selena FM S.A. granted its subsidiaries loans totalling PLN 9,350 thousand, including:

- On 17 January 2018, Selena FM S.A. signed a loan agreement with Carina Sealants Sp. z o.o. The loan amount is PLN 20 thousand. The interest rate is variable. It matures on 31 December 2018. The loan has been drawn down in full.
- On 9 April 2018, Selena FM S.A. signed a loan agreement with Selena Iberia slu. The loan amount is USD 1.,846 thousand and carries it a variable interest rate. It matures on 31 December 2018. USD 500 thousand of the loan has been drawn.
- On 14 May 2018, a loan agreement of EUR 10 thousand was signed with Selena Bulgaria EOOD. The interest rate is variable. It matures on 13 May 2019. The loan has been drawn down in full.
- On 17 September 2018, Selena FM S.A. signed a loan agreement with Selena Nantong Building Materials Co., Ltd. for a sum of CNY 6,000 thousand. The interest rate is fixed. It matures on 19 September 2019. The loan has been drawn down in full.
- On 17 December 2018, a loan agreement of EUR 1,023 thousand was signed with Selena Bulgaria EOOD. The interest rate is variable. It matures on 31 December 2023. The loan has been drawn down in full.

In the year ended 31 December 2018, Selena FM S.A. received loan repayments from subsidiaries totalling PLN 11,216 thousand:

- Selena Iberia: USD 500 thousand
- Selena Bohemia s.r.o.: EUR 139 thousand
- Selena CA L.L.P.: EUR 940 thousand
- Selena Yapi Malzemeleri Sanayi ve Ticaret Ltd Sti: USD 23 thousand
- Forshan Chinuri Selena Chemical Co. LTD: EUR 100 thousand
- Selena Bulgaria EOOD: EUR 1,023 thousand.

On 7 May 2018, an annex was signed to the loan agreement of 12 May 2017 with Selena Nantong Building Materials Co., extending the repayment date from 14 May 2018 to 14 May 2023, and changing the interest rate on the loan.

On 31 July 2018, an agreement of EUR 1,067 thousand was signed with Selena Yapi Malzemeleri Sanayi ve Ticaret Ltd Sti. to convert its trade receivables into a loan. The loan carries a variable interest rate. It matures on 31 December 2023.

On 22 November 2018, annexes were signed to loan agreements of 30 June 2013 and 13 November 2012 with Selena Romania S.R.L., extending the repayment dates from 31 December 2018 to 31 December 2023 and changing the interest rate on these loans.

On 22 November 2018, an annexes was signed to the loan agreement of 18 June 2015 with EURO MGA Product S.R.L., extending the repayment date from 31 December 2018 to 31 December 2023 and changing the interest rate on the loan.

On 21 December 2018, an agreement was signed to write off the loans for Selena Nantong Building Materials Co. in the amount of CNY 33,820 thousand, EUR 1,660 thousand, USD 300 thousand with interest in the amounts of CNY 2,874 thousand, EUR 134 thousand, USD 14 thousand.
In line with IFRS and the adopted accounting policy:

- long-term loans granted to foreign affiliates – which are not expected or likely to be settled in a short-term – are treated as an element of investments into net assets of these entities, within the meaning of IAS 21(15);
- in the consolidated financial statements, the FX differences arising for the lender and the borrower upon valuation of these loans are be reflected in other comprehensive income from the moment the loans are classified as an element of investments into net assets;
- this classification has no impact on the unconsolidated financial statements of the parties to the loan agreements.

The decision of the Management Board stating that the settlement of these loans is not planned is taken independent of any analysis relating to the recoverability of these amounts.

15.4. Loans granted and other financial assets – significant events occurring after the balance sheet date

By the date of publication of these financial statements, Selena FM S.A. received loan repayments from subsidiaries totalling PLN 4,980 thousand:

- Polyfoam Yalitim San.Tic.Ltd.Şti: TRY 75 thousand
- Selena Vostok: EUR 97,000 thousand.

On 15 January 2019, agreements were signed with Euro MGA Product S.R.L. re conversion of trade receivables to loans, in the amount of EUR 552 thousand and RON 3,953 thousand. Interest rates on the loans are variable. Both loans mature on 31 December 2023.

On 15 January 2019, agreements were signed with Selena Romania S.R.L re conversion of trade receivables to loans, in the amount of EUR 1,358 thousand and RON 6,455 thousand. Interest rates on the loans are variable. Both loans mature on 31 December 2023.

On 29 March 2019, annexes were signed to loan agreements with Selena Iberia slu, extending the loan maturity dates to 31 December 2024 and changing the interest rate on the loans.

By the date of publication of this report, no other significant events occurred after the balance sheet date.

16. Other receivables

Figures in PLN thousand	31 December 2018	31 December 2017
VAT claimed	19,777	21,440
Prepayments for deliveries	18	0
Settlements with employees	26	58
Withholding tax	1,417	919
Prepayments and accruals	827	2,031
Other	310	310
Total other receivables	**22,375**	**24,758**

17. Registered capital, supplementary capital and reserves

17.1. Registered capital

17.1.1. Nominal value per share

The structure of the registered capital is shown in the table below.

Series	Type	Nominal value per share (PLN)	Number of shares	Value of shares (PLN)
A	Preference shares	0.05	4,000,000	200,000
B	Ordinary shares	0.05	13,724,000	686,200
C	Ordinary shares	0.05	5,000,000	250,000
D	Ordinary shares	0.05	110,000	5,500
			22,834,000	**1,141,700**

All the shares are fully paid-up. In 2018, the number of shares did not change.

17.1.2. Shareholder rights

Series A are preference shares, carrying two votes each. Series B, C and D shares carry one share each. The shares of all series carry the same dividend rights and the same return on capital.

17.1.3. Major shareholders

The table below shows the stake in the share capital and the voting power of the major shareholders.

	31 December 2018		31 December 2017	
Shareholder	**share in capital**	**share in votes**	**share in capital**	**share in votes**
AD Niva Sp. z o.o.*	42.76%	51.29%	42.76%	51.29%
Syrius Investments S.a.r.l (Luxemburg)**	35.25%	30.00%	35.25%	30.00%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A. ***	5.99%	5.09%	5.99%	5.09%
	84.00%	**86.38%**	**84.00%**	**86.38%**

* entity controlled by Krzysztof Domarecki, President of the Management Board, through Syrius Investment s.a.r.l.

** entity controlled by Krzysztof Domarecki, President of the Management Board

***as at 7 July 2016

17.2. Supplementary capital

Figures in PLN thousand	Year recognised	Value
Excess of the shareholding value over the nominal value of the acquired shares in the merger with Domarecki i Wspólnicy spółka jawna	2007	10,042
Share capital increase and acquisition of new shares by Syrius Investment S.a.r.l	2007	13,588
Fair valuation of long-term liabilities as at the date of conversion into share and supplementary capital	2007	-530
Transfer of profit to the supplementary capital	2008	7,239
Excess of the issuance price over the nominal value of shares after deduction of the issuance costs	2008	161,287
Transfer of profit to the supplementary capital	2011	44,935
Transfer of profit to the supplementary capital	2012	37,263
Excess of the price of acquisition of subscription warrants over the nominal value	2012	104
Reserve capital for the purchase of treasury shares	2012	-8,000
Cover of loss for 2012	2013	-45,123
Payment of dividend	2013	-8,677
Transfer of profit to the supplementary capital	2014	25,611
Cover of loss for 2014	2015	-21,448

Payment of dividend	2015	-6,394
Transfer of profit to the supplementary capital	2016	36,648
Transfer of profit to the supplementary capital	2017	277
Transfer of profit to the supplementary capital	2018	18,972
Supplementary capital		**265,794**

Dividend paid and proposed are described in Note 10.

17.3. Other reserves

Figures in PLN thousand	Year recognised	Value
Results of the merger Selena FM Sp. z o.o. and Domarecki i Wspólnicy sp. j.	2007	9,530
Fair value of the warrants allocated as part of the incentive programme	2010/2011	1,633
Reserve capital earmarked for the purchase of own shares	2012	8,000
Other reserves		**19,163**

17.4. Retained earnings and limitations on dividend payout

The Company is required under the Commercial Companies Code to create a supplementary capital for possible losses. The supplementary capital is created from at least 8% profit for the given financial year reported in the Company's financial statements to the point when the capital reaches at least a third of the share capital. The allocation of the reserve capital or the supplementary capital is the decision of the General Meeting, however a portion of the supplementary capital equal to a third of the share capital may be used only to cover the loss shown in the financial statements, and cannot be used for other purposes.

18. Other liabilities

18.1. Other liabilities

Figures in PLN thousand	31 December 2018	31 December 2017 restated data*
Remuneration payable	2,990	1,876
Investment liabilities	496	22
Taxes and insurance payable	554	577
Advances received for future deliveries	34	148
Other liabilities	0	23
Total other liabilities	**4,074**	**2,646**

19. Loans received

19.1. Balance of bank and other loans

The incurred bank and other loans are presented in the table below.

			31 December 2018		31 December 2017	
Ref	Loan type	Maturity date	*Long-term portion*	*Short-term portion*	*Long-term portion*	*Short-term portion*
1	Working capital loan	07/2020	14,270	0	0	21,109
2	Working capital loan	07/2021	21,856	0	0	4,705

3	Working capital loan	12/2019	0	4,759	0	41,792
4	Working capital loan	06/2021	16,154	0	4,798	0
5	Working capital loan	11/2021	7,987	0	0	0
6	Non-bank loan	12/2023	2,483	0	0	2,419
7	Non-bank loan	12/2019	0	1,011	1,500	41
8	Non-bank loan	12/2019	0	1,728	1,668	15
9	Non-bank loan	12/2019	0	765	750	20
10	Non-bank loan	09/2022	8,700	70	8,800	54
11	Non-bank loan	12/2023	12,000	183	0	0
Total loans			**83,450**	**8,516**	**17,516**	**70,155**

19.2. Specification of loans

1) Receivables Limit Agreement of 25 June 2009 for Selena FM and subsidiaries Orion PU sp. z o.o., Libra sp. z o.o. and Selena S.A. On 9 July 2018, Selena FM S.A., Orion PU sp. z o.o., Libra sp. z o.o., Selena S.A., Izolacja – Matizol S.A. and TYTAN EOS sp. z o.o. signed an annex to the loan agreement, reducing the total credit limit to PLN 35,000 thousand. As at the balance sheet date, Selena FM S.A. had a sublimit of PLN 15,500 thousand. The credit period was extended to 13 July 2020. The facility bears a variable rate of interest: 1M WIBOR/EURIBOR/LIBOR + margin. The limit is secured by a power of attorney to the borrowers' current accounts maintained by the bank; mortgage on the real estate of Orion PU Sp. z o. o. up to PLN 52,500 thousand with the assignment of rights under the insurance policy and blank promissory notes issued by the borrowers together with the promissory note declarations.

2) Multi-product agreement of 22 February 2011, as amended, for Selena FM S.A. and subsidiaries Carina Silicones sp. z o.o., Selena S.A. and Orion PU sp. z o.o. The agreement provides for a total credit limit of PLN 70,000 thousand. On 4 July 2018, an annex was signed, extending the loan repayment date to 4 July 2021. As at the balance sheet date, Selena FM S.A. had a sublimit of PLN 45,000 thousand. It bears a variable rate of interest: 1M WIBOR/EURIBOR + margin. The loan is secured by mortgages on the properties owned by the subsidiaries: Carina Silicones Sp. z o.o., Selena Labs Sp. z o.o. and Tytan EOS Sp. z o.o., a registered pledge on the properties and inventories of Carina Silicones Sp. z o.o. and Tytan EOS Sp. z o.o., together with assignment of insurance policies for the above assets, a registered pledge on the inventories of Orion PU Sp. z o.o., Libra Sp. z o.o. and Selena S.A. together with assignment of insurance policies for the above assets and civil law guarantees of Tytan EOS Sp. z o.o. and Libra Sp. z o.o. The borrowers also issued blank promissory notes to the bank, alongside promissory note declarations.

3) Multipurpose agreement of 26 November 2013, as amended, for Selena FM and subsidiaries Selena S.A., Tytan EOS sp. z o.o. and Izolacja–Matizol Sp. z o.o., Orion PU Sp. z o.o. and Libra Sp. z o.o. The loan amount is PLN 70,000 thousand and the maturity date is 31 January 2019.As at the balance sheet date, Selena FM S.A. had a sublimit of PLN 57,000 thousand. The loan bears a variable interest rate of 1M WIBOR/EURIBOR + margin. The facility is secured by an assignment of all the material receivables from specified debtors of Selena S.A., assignment of insurance rights, a statement of submission to debt enforcement, power of attorney to current accounts and a legal mortgage on a property owned by Libra sp. z o.o.

4) Multi-purpose credit limit agreement of 5 August 2016 for Selena FM S.A, and its subsidiaries: Orion PU Sp. z o.o., Carina Silicones Sp. z o.o., Libra Sp. z o.o., Izolacja Matizol Sp. z o.o. By annex of 29 June 2018, the credit limit amount was increased from PLN 50,000 thousand to PLN 90,000 thousand. Selena S.A. joined the loan. The increased loan limit amount was split between the companies participating in the loan agreement. At the same time, the credit period was extended to 29 June 2021. As at the balance sheet date, Selena FM S.A. had a sublimit of EUR 5,170 thousand, PLN 33,800 thousand and USD 3,000 thousand, The interest rate is variable based on 1M WIBOR + margin for the funds used in PLN, 1M EURIBOR + margin for the funds used in EUR and 1M LIBOR for the funds used in USD. The loan is secured by an ordinary joint mortgage on the properties owned by Izolacja Matizol Sp. z o.o and registered pledge on the properties owned by Izolacja Matizol Sp. z o.o alongside assignment of insurance policies for the above assets, and transfer of trade receivables due from the debtors of Selena S.A., together with assignment of insurance policies for the above receivables. The borrowers also issued blank promissory notes to the bank, alongside promissory note declarations.

5) A multi-line credit agreement of 16 November 2018 signed by Selena FM S.A. The credit limit amount is EUR 12,000 thousand. The loan term is 36 months and the loan purpose is to finance working capital needs. It bears a variable interest rates at 1M EURIBOR/ WIBOR/ LIBOR + margin. The facility is secured by (i) a mortgage on the property owned by Orion PU up to EUR 18,000 thousand along with the assignment of rights under the insurance contract for this property; (ii) debt-joining by Selena S.A., Orion PU Sp. z o.o., Carina Silicones Sp. z o.o. and Libra Sp. z o.o. along with power of attorney, and a statement of submission to debt enforcement under Article 777 of the Code of Civil Procedure.

6) Agreement of 10 December 2013 with a subsequent annex: Selena FM S.A. signed a loan agreement of PLN 4,00 thousand and EUR 575 thousand with a subsidiary. As at 31 December 2018, the value of the obligation is EUR 577 thousand. The loan matures on 31 December 2023. The loan carried a variable market rate + margin.

7) Agreement of 31 December 2014: Selena FM S.A. signed a loan agreement of PLN 1,500 thousand with a subsidiary. As at 31 December 2018, the value of the obligation is PLN 1,011 thousand. The loan matures on 31 December 2019. The loan carried a variable market rate + margin.

8) Agreement of 31 December 2014: Selena FM S.A. signed a loan agreement of EUR 400 thousand with a subsidiary. As at 31 December 2018, the value of the obligation was EUR 402 thousand. The loan matures on 31 December 2019. The loan carried a variable market rate + margin.

9) Agreement of 31 December 2014: Selena FM S.A. signed a loan agreement of PLN 3,197 thousand with a subsidiary. As at 31 December 2018, the value of the loan is PLN 765 thousand. The loan matures on 31 December 2019. The loan carried a variable market rate + margin.

10) Agreement of 25 September 2017: Selena FM S.A. signed a loan agreement of PLN 10,000 thousand with a subsidiary. As at 31 December 2018, the value of the loan is PLN 8,770 thousand. The loan matures on 24 September 2022. The loan carried a variable market rate + margin.

11) Agreement of 29 May 2018: Selena FM S.A. signed a loan agreement of PLN 15,000 thousand with a subsidiary. As at 31 December 2018, the value of the obligation is PLN 12,183 thousand. The loan matures on 31 December 2023. The loan carried a variable market rate + margin.

<u>Events occurring after the balance sheet date</u>

On 30 January 2019, an Annex to the multi-purpose premium credit line contract of 26/11/2013 was signed (item 3 in the list). The Borrowers are: Selena S.A., Selena FM S.A., Tytan EOS Sp. z o.o., Izolacja Matizol sp. o.o., Libra sp. o.o., Orion PU sp. o.o. The amount of the multi-purpose credit line was increased to the maximum level of PLN 80 million. At the same time the availability period was extended to 31.12.2021. The interest rate is variable, based on 1M WIBOR + margin for the funds used in PLN and 1M EURIBOR + margin for the funds used in EUR. The facility is secured by a mortgage on the property of Libra sp. z o.o. along with assignment of the insurance policy, a blank promissory note issued by all Borrowers and assignment of all existing and future claims of some contractors of Selena S.A.

19.3. Loan agreement terms

As part of the loan agreements signed by the Company separately or jointly with its subsidiaries, Selena FM S.A. undertook to maintain certain financial ratios at the levels agreed with banks. As at 31 December 2018, Selena FM Group maintained the consolidated financial ratios at the levels required by the lenders.

20. Reconciliation of the debt balance

The table below presents information on changes in the level of debt on cash flows items and non-cash changes for 2018.

Figures in PLN thousand	Bank loans	Loans received	Leases	Total
Debt as at 1 January 2018	**72,404**	**15,267**	**1,007**	**88,678**
Changes resulting from cash flows, including:	-10,880	10,962	-787	-705
financing received	*49,753*	*12,000*	*0*	*61,753*
repayment of principal	*-58,078*	*-600*	*-698*	*-59,376*
interest and fees paid	*-2,555*	*-438*	*-89*	*-3,082*
Non-cash changes, including:	3,501	713	1,156	5,370
lease agreements signed	*0*	*0*	*1,067*	*1,067*
interest and fees accrued	*2,555*	*586*	*89*	*3,230*
FX differences	*946*	*127*	*0*	*1,073*
Debt balance as at 31 December 2018	**65,025**	**26,942**	**1,376**	**93,343**

The table below presents information on changes in the level of debt on cash flows items and non-cash changes for 2017.

Figures in PLN thousand	Bank loans	Loans received	Leases	Other financial liabilities	Total
Debt as at 1 January 2017	**111,315**	**6,563**	**1,545**	**52**	**119,475**
Changes resulting from cash flows, including:	-41,858	8,800	-829	0	-33,887
financing received	*11,405*	*8,800*	*0*	*0*	*20,205*
repayment of principal	*-49,520*	*0*	*-718*	*0*	*-50,238*
interest and fees paid	*-3,743*	*0*	*-111*	*0*	*-3,854*
Non-cash changes, including:	2,947	-96	291	5,206	8,348
lease agreements signed	*0*	*0*	*180*	*0*	*180*
interest and fees accrued	*3,743*	*151*	*111*	*-48*	*3,957*
FX differences	*-796*	*-247*	*0*	*-66*	*-1,109*
other	*0*	*0*	*0*	*5,320*	*5,320*
Debt balance as at 31 December 2017	**72,404**	**15,267**	**1,007**	**5,258**	**93,936**

21. Contingent liabilities and guarantees granted

21.1. Guarantees given to subsidiaries

Material guarantees that Selena FM S.A. grants to its subsidiaries are presented in the table below.

			31.12.2018			31.12.2017		
Comment	**Secured obligation**	**Beneficiary**	**Amount in currency (m)**	**Ccy**	**Expires**	**Amount in currency (m)**	**Ccy**	**Expires**
1	Joint credit limit	Bank	10.79	PLN	01/2019	5.84	PLN	12/2018
	Joint credit limit	Bank	24.94	PLN	07/2021	21.98	PLN	07/2018
	Joint credit limit	Bank	16.04	PLN	07/2020	12.79	PLN	07/2018
	Joint credit limit	Bank	11.70	PLN	06/2021	4.63	PLN	06/2021
2	Loan	Bank	0.00	PLN	03/2018	0.41	PLN	03/2018
	Loan	Bank	50.15	RUB	01/2022	63.65	RUB	01/2022
	Loan	Bank	50.68	RUB	07/2019	302.32	RUB	06/2018
	Financing	Bank	0.00	EUR	2018	1.42	EUR	2017
	Financing	Bank	2.21	EUR	2019	1.94	EUR	2018
	Financing	Bank	0.76	EUR	2020	1.16	EUR	2020
	Financing	Bank	0.86	EUR	2022	0.88	EUR	2022
3	Supplies	Supplier	6.75	EUR		5.05	EUR	
		Supplier	0.50	RON				
		Supplier	3.00	PLN	03/2019	3.00	PLN	03/2018

4	Settlement of purchase of contingent assets	Holding Lowinter	1.08	EUR	-	1.29	EUR	-
5	Bank guarantee	Customs Office	0.20	PLN	07/2019	0.10	PLN	03/2018

1 – Loan agreements signed jointly by the company and its subsidiaries provide for their joint liabilities towards bank. The amounts shown in the table indicate the value of the loans of other parties to the agreements (i.e. except Selena FM S.A.) as at 31 December 2018. In the opinion of the Management Board the risk of the companies' default under the agreements is marginal.

2 – Loan agreements (other forms of finance) taken out independently by subsidiaries. The amounts in the table show the value of credit obligations of the parties to the agreements as at 31 December 2018

3 – Guarantee securing the payments by subsidiaries to towards the supplier. The amount in the table indicates the maximum guarantee limit. By the date of publication of these financial statements, guarantees of EUR 1.25 million and PLN 3,000 thousand had expired.

4 – As part of the acquisition of Selena Iberia (formerly: Industrias Quimicas Lowenberg), in 2009, at the acquisition date, potential assets were identified in the acquired company which were related to the realisation of the benefits that might flow to Selena Iberia in the future in respect of contingent tax assets. Pursuant to the agreement between Selena FM S.A. and the previous shareholders of the company, if the company acquires any actual economic benefits in respect of the above items, then they will be returned to the previous shareholders in an amount equal to those benefits. On 30 September 2010, an additional agreement was signed in relation to this matter, whereby any potential economic benefits arising from these assets will be returned to the previous shareholders in the portion corresponding to 70% or 85% (depending on the type of the asset) of the value of such benefits. In 2018, Selena Iberia achieved a taxable income allowing it to partially use tax losses tax reliefs from previous years. As a result, in 2018 Selena FM S.A. recognized future liability towards former owners of Industrias Qumicas Lowenberg of EUR 200 thousand. The maximum nominal value of contingent liabilities not included in the settlement, taking into account future liabilities recognized in the statement of financial position as at 31 December 2018, is EUR 1.08 million.

5 – Bank guarantee of PLN 0.2 million issued against the limit sanctioned to Selena FM in favour of a Polish customs office.

Events occurring after the balance sheet date

On 11 April 2019, Selena FM S.A. signed a guarantee line agreement for the foreign affiliates of Selena FM Group. The available limit amount will be up to EUR 6.5 million; the maximum validity period of bank guarantees and letters of credit will be 13 months. The facility will be secured by accession of foreign affiliates to the debt: Selena S.A. and Carina Silicones sp. o.o together with the power of attorney to use the funds in the bank accounts and a statement of submission to debt enforcement, made under Article 777 of the Code of Civil Proceedings by the borrower and the entity joining the debt.

21.2. Court disputes

As at the balance sheet date and by the date of preparation of this report Selena FM S.A. was not a party to any material court dispute.

21.3. Tax settlements

Tax payment and other regulated areas of business (including customs or currency-related activities) may be subject to inspection by administrative bodies, which have the right to impose high fines and sanctions. In the absence of well-established legislation, Polish regulations tend to be unclear and inconsistent. There are frequent differences in interpretation of tax regulations both within State administration bodies and between such bodies and corporations, which gives rise to uncertainties and conflicts. As a result, the tax risk in Poland is substantially higher than in the countries with a more mature tax system.

Tax payments may be inspected for five years after the year when the tax was paid.

On 20 December 2016, the Company received a decision on commencement of an inspection by the Head of the Wrocław Tax Chamber to check correctness of calculation of the taxable income and the CIT paid for 2013. The proceedings – continued further by the Head of the Lower Silesian Customs and Tax Office in Wrocław – ended on 22 October 2018 with a findings report, in which the inspection body stated than no irregularities were found in the area covered by the inspection.

Risks and uncertainties associated with tax matters have been described in Management Board's Report on the Activities of Selena Group, Note "Description of risks and threats".

22. Leases

22.1. Finance lease liabilities (Other lease liabilities) – Company as a lessee

The Company uses vehicles and computer servers under finance leases. The future minimum lease payments under such leases and the present value of the minimum lease payments are presented in the table below. In the statement of financial position, finance lease liabilities are presented in other financial liabilities

	31 December 2018		31 December 2017	
Figures in PLN thousand	**Nominal value**	**Current value**	**Nominal value**	**Current value**
Total lease payments	**1,454**	**1,376**	**1,065**	**1,007**
Payments up to 1 year	678	631	556	527
Payments from 1 to 5 years	776	745	509	480
Less financial expenses	78	0	58	0
Current value of total minimum lease payments	**1,376**	**1,376**	**1,007**	**1,007**

Terms of the material leases (cars):
- lease term – 3 years
- amortisation period – mainly 5 years
- lease payments vary depending on current interest rate
- at the lease termination, the lessee has the right to purchase the leased asset for a price equal to its residual value.

22.2. Operating lease liabilities – Company as a lessee

The future minimum lease payments under the leases are presented in the table below.

Figures in PLN thousand	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Lease payments recognised as cost for the period	2,823	2,674
Conditional lease payments recognised as cost for the period	0	0
Future minimum operating lease payments		
payable up to 1 year	1,997	2,548
payable from 1 to 5 years	998	3,822
payable over 5 years	0	0
Total operating lease liabilities	**2,995**	**6,370**

The Company operating leases mainly for office and storage space.

22.3. Operating lease receivables – Company as a lessor

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Lease payments recognised as income for the period	59	38
Future receivables in respect of minimal lease payments:		
payable up to 1 year	59	38
payable from 1 to 5 years	0	0
Operating lease receivables – total	**59**	**38**

23. Reasons for differences between changes in certain balance sheet items and changes arising from the statement of cash flows.

The table below present the reasons for differences between changes in certain balance sheet items and changes arising from the statement of cash flows.

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Balance sheet change in receivables	**-12,895**	**-6,448**
Change in the balance of investment receivables	0	-5
Change in receivables in respect of dividend	-9,077	932
Change in receivables in respect of conversion into loans	-3,938	-43,056
Other	-327	0
Change in the balance of receivables in the statement of cash flows	**-26,237**	**-48,577**

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Balance sheet change in liabilities	**8,719**	**-72,439**
Change in the balance of loans	-4,295	30,206
Change in the balance of lease obligations	-369	538
Change in the balance of investment obligations	-386	45
Change in the balance of income tax obligations	-221	-61
Change in guarantee obligations	0	53
Change in the balance of obligations on account of purchase of shares in subsidiaries	0	-5,320
Change in the balance of provisions	-153	2,095
Change in the balance of liabilities in the statement of cash flows	**3,295**	**-44,883**

24. Related party transactions

The Company provides advisory services to its subsidiaries, and is a distributor of the Group's products to foreign companies. The transactions for the sale and purchase of goods and services to/from the related parties are carried out on an arm's length. The table below shows a summary of the transactions with related parties in 2018 and 2017. Note 28.2 contains information on the loss/ reversal of impairment loss on the value of financial assets on financial assets from related parties.

Figures in PLN thousand	Period	Loans	Trade receivables	Other receivables	Liabilities
Subsidiaries	2018	123,088	148,575	0	104,902
	2017	107,746	133,091	902	92,701
Associates	2018	0	1,013	0	35
	2017	0	1,216	0	0
Subsidiaries of the ultimate controlling shareholder	2018	0	1	0	0
	2017	0	1	0	0
	2018	0	123	0	0
	2017	0	2,446	0	0
	2018	0	6	0	0
	2017	0	0	0	0
TOTAL	**2018**	**123,088**	**149,718**	**0**	**104,937**
	2017	**107,746**	**136,754**	**902**	**92,701**

Figures in PLN thousand	Period	Revenue from sales and recharged costs	Purchase of goods and services	Other revenues[1)]	Other costs
Subsidiaries	2018	447,289	400,929	34,286	2,142
	2017	469,434	420,480	78,199	770
Associates	2018	4,151	65	0	0
	2017	4,917	36	0	0
Subsidiaries of the ultimate controlling shareholder*	2018	1,914	0	0	0
	2017	4,457	0	3,413	0
TOTAL	**2018**	**453,354**	**400,994**	**34,286**	**2,142**
	2017	**478,808**	**420,516**	**81,612**	**770**

[1] the value includes other operating revenues and financial revenues

** the item includes entities connected through Mr Krzysztof Domarecki*

Information on other remuneration for key management personnel not included in the table above is presented in Note 25.

25. Remuneration of the key management personnel of the Company

Emoluments of the Parent's Management Board are presented in the table below.

MANAGEMENT BOARD Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Short-term employment benefits, including bonuses (remuneration and deductions)	1,842	2,124
Death benefits	120	0
Total	**1,962**	**2,124**

SUPERVISORY BOARD Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Short-term employment benefits, including bonuses (remuneration and deductions)	581	309
Total	**581**	**309**

Management Board members receive fixed and variable (bonus-based) remuneration. A decision on bonus payment for 2018 will be taken by the Supervisory Board.

AD Niva Sp. z o.o. and Syrius Investment S.a.r.l. as shareholders of Selena FM S.A. received a dividend in 2018 (Note 10), in accordance with the number of shares held (Note 27.1.3).

The Group's consolidated accounts for 2018 (Note 32) show the transactions with connected entities (including the Parent Company's Management Board members) of all the Group companies.

26. Auditor's fee

The table below shows the fee payable to the auditor of the Company's 2018 and 2017 financial statements.

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Audit of the annual financial statements	210	145
Review of the interim financial statements	95	55
Total	**305**	**200**

On 13 May 2018, the Supervisory Board of Selena FM S.A. resolved to appoint PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp. k. (formerly: PricewaterhouseCoopers Sp. z o.o.) as the auditor responsible for review of the interim financial statements and audit of the annual financial statements of the Parent Company, and the Group's consolidated financial statements for 2018, 2019 and 2020.

The 2017 accounts were audited by Deloitte Polska Sp. z o.o. Sp. k.

27. Financial instruments

27.1. Fair value of financial instruments;

	31 December 2018		31 December 2017	
Instrument class (PLN '000)	**AFwgZK**	**WwWGpWF**	**PiN**	**WwWGpWF**
Financial assets				
Trade receivables	159,235	0	143,958	0
Loans granted	123,136	0	105,581	0
Cash	1,849	0	10,121	0
Forward transactions	0	277	0	309

WwWGpWF – Financial assets / liabilities measured at fair value through profit or loss

PiN – Loans and receivables

AFwgZK – Financial assets measured at amortised cost

Instrument class (PLN '000)	31 December 2018 PZFwgZK	31 December 2017 restated data* PZFwgZK
Financial liabilities		
Trade liabilities	85,597	84,297
Bank and other loans	91,966	87,671
Other liabilities	6,003	3,014

PZFwgZK – Other liabilities measured at amortised cost
* the reasons and effects of the restated data published in earlier periods are described in Note 3.1

A major portion of the information that underlies estimation of fair value of financial instruments is highly subjective and results from the Management's judgement, therefore it may not be accurate. Fair value is estimated at the balance sheet date. For the instruments measured at amortised cost fair value is estimated as the current value of future contractual cash flows discounted by a rate corresponding to the market rate that would be determined for such instrument had it been initially recognised at the balance sheet date. The amounts that will be actually achieved or paid at maturity may be significantly different than the estimates.

Due to the short settlement dates and the interest rates close to market rates, the fair value of short-term financial assets is not significantly different than their book value.

The fair valuation of forward transactions has been classified to Level 2 of the fair value hierarchy (i.e. valuation using observable inputs other than quoted prices).

27.2. Revenues, expenses, profits and losses disclosed in the profit and loss account by classes of financial instruments

	FINANCIAL ASSETS		FINANCIAL LIABILITIES	
Year ended 31 December 2018				
Figures in PLN thousand	**AFwgZK**	**AF WwWGpWF**	**ZFwgZK**	**TOTAL**
Interest income/ expense (-)	7,321	5	-3,231	4,095
FX gains/ losses (-)	2,317	-962	-2,504	-1,149
Impairment loss on financial assets	-3,832	0	0	-3,832
Reversal of impairment loss on financial assets	30,618	0	0	30,618
Gains/ losses (-) on fair valuation	0	16	0	16
Write-off of loans granted	-27,341	0	0	-27,341
TOTAL (net profit/ net loss (-))	**9,083**	**-941**	**-5,735**	**2,407**

WwWGpWF – Financial assets / liabilities measured at fair value through profit or loss
PiN – Loans and receivables
ZFwgZK – Financial liabilities measured at amortised cost

	FINANCIAL ASSETS		FINANCIAL LIABILITIES	
Year ended 31 December 2017				
Figures in PLN thousand	**PiN**	**AF WwWGpWF**	**ZFwgZK**	**TOTAL**
Interest income/ expense (-)	9,363	0	-4,207	5,156
FX gains/ losses (-)	-19,404	553	5,267	-13,584
Creation of impairment charges	-48,979	0	0	-48,979
Reversal of impairment charges	31,213	0	0	31,213
Effect of unwinding the discount on financial liabilities	0	0	49	49
Gains/ losses (-) on fair valuation	0	1,209	0	1,209
TOTAL (net profit/ net loss (-))	**-27,807**	**1,762**	**1,109**	**-24,936**

WwWGpWF – Financial assets / liabilities measured at fair value through profit or loss
PiN – Loans and receivables
ZFwgZK – Financial liabilities measured at amortised cost

28. Goals and rules of financial risk management

Selena FM S.A. as a holding entity of the Group primarily focuses on ensuring finance for its subsidiaries' operating and investment needs, and on securing their liquidity. Granting interest-bearing loans to the subsidiaries is the main tool for this policy. The Company's cash is put on short-term deposits.

Financial risk management in the Company includes the process of identification, assessment, measurement and management of this risk.

The main risks arising from the utilised financial instruments include the market risk (including the interest rate and currency risk), credit risk and liquidity risk.

28.1. Market risk

28.1.1. Interest rate risk

The Company is exposed to interest rate risk as according to the adopted policy, it finances its subsidiaries with loans bearing variable interest rates.

The age structure of interest-bearing financial instruments (at nominal value) is presented in the table below.

Instruments with a fixed interest rate	31 December 2018				31 December 2017 restated data*			
Figures in PLN thousand	**< 1 year**	**1-3 years**	**>3 years**	**Total**	**< 1 year**	**1-3 years**	**> 3 years**	**Total**
Loans granted	51	6,375	6,437	**12,863**	3,232	8,860	1,072	**13,164**

Instruments with a variable interest rate	31 December 2018				31 December 2017 restated data*			
Figures in PLN thousand	**< 1 year**	**1-3 years**	**>3 years**	**Total**	**< 1 year**	**1-3 years**		**Total**
Loans granted	24,721	36,250	49,302	**110,273**	11,396	53,755	27,266	**92,417**
Finance lease liabilities	631	745	0	**1,376**	527	480	0	**1,007**
Bank loans	8,516	60,266	23,184	**91,966**	70,155	8,716	8,800	**87,671**

The potential impact of the market interest rates changes during the year on the financial result generated by the financial instruments with a variable yield is presented in the table below. The analysis is based on the assumption that other variables, notably FX rates, will remain unchanged.

Figures in PLN thousand	31 December 2018 PLN	EUR	Other currencies	31 December 2017 restated data* PLN	EUR	Other currencies
Loans granted	3,323	55,165	51,785	2,318	58,918	31,181
Bank loans received	-34,705	-48,928	-8,333	-61,273	-26,398	0
Other financial liabilities	-1,376	0	0	-1,007	0	0
Net exposure	**-32,758**	**6,237**	**43,452**	**-59,962**	**32,520**	**31,181**
Impact * of an increase ** in interest rate*** by 1 pp	-328	62	435	-600	325	312

* excluding possible tax effects
** impact of a decrease is the same
*** respectively: WIBOR / EURIBOR

The Company does not use any IRSs or similar contracts to mitigate its interest rate risk.

28.1.2. FX risk

As part of its distribution activities, Selena FM S.A. exports goods to the markets of the European Union, Eastern Europe and Asia as well as North and South America, which gives rise to a significant currency risk.

The table below presents the Company's open positions denominated in euro, Russian ruble, US dollar, yuan renminbi (China), Romanian leu and in other currencies (converted into PLN and presented in the column "Other currencies") and the estimated impact of exchange rate changes on the result valuation of these positions.

Exposure currency	31 December 2018							
Figures in PLN thousand	**EUR**	**RUB**	**USD**	**CNY**	**RON**	**PLN**	**Other currencies**	**Total**
Loans granted	62,465	40,432	6,384	5,328	0	2,581	5,946	123,136
Receivables	120,760	1,096	24,838	0	14,095	14,707	6,114	181,610
Cash	483	0	23	18	0	597	728	1,849
	180,759	**26,079**	**18,285**	**4,062**	**10,654**	**31,808**	**12,771**	
Trade and other liabilities	72,617	0	546	9	0	19,183	157	92,512
Loans received	48,928	0	10,001	0	0	33,037	0	91,966
	121,545	**0**	**10,547**	**9**	**0**	**52,220**	**157**	
Net exposure	**62,163**	**41,528**	**20,698**	**5,337**	**14,095**	**-34,335**	**12,631**	
Impact on result at min. PLN/EUR, RUB, USD, CNY, RON rate*	-1,382	-2,917	-1,262	-249	-525			
Impact on the result at max. PLN/EUR, RUB, USD, CNY, RON rate*	2,433	10,056	1,536	320	328			

* rates at the max./min. arithmetic average levels from the last three years

	31 December 2017							
Figures in PLN thousand	**EUR**	**RUB**	**USD**	**CNY**	**RON**	**PLN**	**Other currencies**	**Total**
Loans granted	60,986	24,685	6,963	4,061	21	2,367	6,498	105,581
Receivables	109,670	1,394	11,312	0	10,633	29,439	6,268	168,716
Cash	10,103	0	10	1	0	2	5	10,121
	180,759	**26,079**	**18,285**	**4,062**	**10,654**	**31,808**	**12,771**	
Trade and other liabilities	70,785	0	272	8	0	17,051	125	88,241
Loans received	26,398	0	0	0	0	61,273	0	87,671
	97,183	**0**	**272**	**8**	**0**	**78,324**	**125**	
Net exposure	**83,576**	**26,079**	**18,013**	**4,054**	**10,654**	**-46,516**	**-**	
Impact on result at min. PLN/EUR, RUB, USD, CNY, RON rate*	-3,781	-4,922	0	-27	0			
Impact on the result at max. PLN/EUR, RUB, USD, CNY, RON rate*	6,665	6,649	3,974	556	932			

* rates at the max./min. arithmetic average levels from the last three years

The column "other currencies" shows the total currency exposures other than the euro, Russian rouble and US dollar (mainly Turkish lira, Hungarian forint and Czech crown). Due to the low exposure to these currencies, their sensitivity is not analysed separately. The Company does not have any material FX exposures in such currencies as Bulgarian lev, Ukrainian hryvnia or Brazilian real.

In 2018, there was an unfavorable trend in key currency pairs, i.e. EUR/RUB and EUR/TRY at the beginning and at the end of the reporting period. The Company hedges the active part of its currency exposures relating to trade receivables and liabilities, i.e. those that can actually be realised over 12 months. Under its FX Risk Management Policy, Selena FM S.A. hedges its currency exposure by using multi-currency credit lines and currency derivatives. In 2018, the Company hedged its expected cash flows with FX forwards and other financial instruments. The Company regularly enters into forward contracts, usually in the currency pairs EUR/RUB, EUR/PLN, USD/PLN, HUF/PLN, CZK/PLN and RON/PLN. On average in the period, the Company had open forward contracts hedging the rates up to EUR 5 million for each currency pair. The Company uses such financial instruments solely to hedge its FX risk and does not use them for speculative purposes. The Company does not use hedge accounting within the meaning of IFRS 9.

As at 31 December 2018, the Company had open FX options for EUR/RUB rate (RUB sales); EUR/PLN (EUR sales), USD/PLN (USD sales), CZK/PLN (CZK sales) and RON/PLN (RON sales); their value was PLN 277 thousand (as at 31 December 2017: PLN 309 thousand).

After the balance sheet date, Selena FM S.A. had financial instruments in place relating to USD/PLN (USD 1.4 million), RON/PLN (RON 1.5 million), CZK/PLN (CZK 5.5 million), HUF/PLN (HUF 50 million) and EUR/RUB (EUR 2.5 million), EUR/PLN (EUR 2.75 million) with settlement dates in the period until 30 December 2019.

28.2. Credit risk

The Company has identified the following items that carry credit risk:

- Loans granted
- Trade receivables and
- Cash and cash equivalents.

Due to the nature of the Company's business, financial assets (loans granted, trade debtors) mainly relate to connected entities. The Management Board regularly monitors and current and projected financial position of these companies and its impact on their ability to meet payments under the financial instruments – an expected credit loss is estimated in accordance with IFRS 9.

The classification of loans granted to related parties measured at amortized cost to individual stages of the impairment model is presented below.

Loans granted to related parties	31 December 2018			1 January 2018		
Figures in PLN thousand	**Grade 2**	**Grade 3**	**Total**	**Grade 2**	**Grade 3**	**Total**
Gross value of loans granted to related parties	22,179	200,478	**222,657**	27,707	197,187	**224,894**
Impairment in respect of expected credit loss (IFRS 9)	-147	-99,422	**-99,569**	-746	-119,361	**-120,107**
Carrying amount of loans granted to related parties (IFRS 9)	**22,032**	**101,056**	**123,088**	**26,961**	**77,826**	**104,787**

Reconciliation of impairment charges on loans granted to related parties as at 31 December 2018 and 31 December 2017 to the opening balances:

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Impairment charge at the beginning of the period	**119,361**	**70,134**
Application of IFRS 9	746	NA
Allowance in respect of expected credit loss at the beginning of the period after the application of IFRS 9:	**120,107**	**NA**
Created according to IAS 39, including:	NA	44,072
Reversed according to IAS 39, including:	NA	-3,334
Impairment charge created/ reversed (-) according to IFRS 9:	*-21,341*	*NA*
Selena Nantong Building Materials Co., Ltd.	*-21,130*	*NA*
Selena Bohemia s.r.o.	*-354*	*NA*
Other connected companies	*143*	*NA*
Other	0	16,717
FX differences	803	-8,228
Impairment allowance according to IFRS 9 as at 31 December 2018 and IAS 39 as at 31 December 2017	**99,569**	**119,361**

Trade receivables have been classified to the following stages of the impairment model:

Trade receivables	31 December 2018					1 January 2018				
Figures in PLN thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Simplified model**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Simplified model**	**Total**
Gross trade receivables										
from related parties	1,937	30,559	143,466	0	**175,962**	3,287	67,518	87,676	0	**158,481**
from other entities	0	0	0	10,774	**10,774**				8,178	**8,178**
Total gross trade receivables	**1,937**	**30,559**	**143,466**	**10,774**	**186,736**	**3,287**	**67,518**	**87,676**	**8,178**	**166,659**
Impairment in respect of expected credit loss										
from related parties	0	-68	-26,177	0	**-26,245**	0	-500	-30,183	0	**-30,683**
from other entities	0	0	0	-1,256	**-1,256**	0	0	0	-1,095	**-1,095**
Total impairment in respect of expected credit loss	**0**	**-68**	**-26,177**	**-1,256**	**-27,501**	**0**	**-500**	**-30,183**	**-1,095**	**-31,778**
Carrying amount of trade receivables	**1,937**	**30,491**	**117,289**	**9,518**	**159,235**	**3,287**	**67,018**	**57,493**	**7,083**	**134,881**

Changes in impairment allowances in 2018 alongside comparative data are presented in the table below:

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Impairment charge at the beginning of the period	**22,701**	**48,656**
Application of IFRS 9	9,077	NA
Allowance in respect of expected credit loss at the beginning of the period after the application of IFRS 9	**31,778**	**NA**
related parties	*30,683*	*47,318*
other entities	*1,095*	*1,338*
Created according to IAS 39, including:	NA	4,907
related parties	*NA*	*4,905*
other entities	*NA*	*2*
Reversed according to IAS 39, including:	NA	-27,879
related parties	*NA*	*-27,576*
other entities	*NA*	*-303*
Impairment charge created/ reversed (-) according to IFRS 9:	-5,445	NA
related parties, including:	*-5,593*	*NA*
EURO MGA Product SRL	*1,268*	*NA*
Universal Energy Sp. z o.o.	*1,165*	*NA*
Selena USA, Inc.	*-2,833*	*NA*
Selena Romania SRL	*-2,632*	*NA*
Selena Nantong Building Materials Co., Ltd.	*-1,223*	*NA*
TOO Selena Insulations	*-1,215*	*NA*
Selena Bulgaria Ltd.	*-426*	*NA*
Other connected companies	*303*	*NA*
other entities	*148*	*NA*
Utilised	-18	0
FX differences	1,186	-2,983
related parties	*1,155*	*-2,920*
other entities	*31*	*-63*
Impairment allowance according to IFRS 9 as at 31 December 2018 and IAS 39 as at 31 December 2017	**27,501**	**22,701**
related parties	*26,245*	*21,727*
other entities	*1,256*	*974*

The Company performs a collective analysis of receivables from other entities and uses a simplified matrix of allowances for individual age ranges. The table below shows default rates together with a calculation of allowances in respect of expected credit loss for other receivables as at 31 December 2018 and 1 January 2018.

Figures in PLN thousand		Total	Up-to-date	Days in arrears < 30	31 – 60	61 – 90	91 – 120	121 – 180	181-360	>361
31 December 2018	Trade receivables from non-related parties	10,774	7,895	1,521	170	26	1	5	44	1,112
	Default rate		1.5%	6.3%	16.1%	27.5%	41.3%	53.8%	100.0%	100.0%
	Expected credit loss	1,256	44	56	3	7	0	3	31	1,112
1 January 2018	Trade receivables from non-related parties	8,178	5,998	671	96	220	128	78	97	890
	Default rate		-	-	-	5.9%	41.4%	53.8%	100.0%	100.0%
	Expected credit loss	1,095	0	0	0	13	53	42	97	890

In the case of cash and cash equivalents, the Management Board believes that the credit risk is low (stage 1 of the impairment model). The entities with which the Company keeps its cash are financial institutions that have medium-high rating and which have appropriate equity as well as a strong and stable market position. The structure of cash and their equivalents is presented in the table below.

Figures in PLN thousand	31 December 2018	31 December 2017
Cash in bank	1,834	10,111
Cash on hand	15	10
Total cash	**1,849**	**10,121**

As at 31 December 2018, the Company had unutilised credit lines of PLN 171.4 million (PLN 127 million as at 31 December 2017) as part of the credit limits.

28.3. Liquidity risk

In the Management Board's opinion, the risk of liquidity loss understood as the ability to meet obligations as and when they fall due is currently marginal.

Taking into account the Company's balance sheet structure, no major liquidity risk exists at the balance sheet date. The Company's short-term assets (PLN 212.9 million) are twice as high as the value of its short-term liabilities (PLN 102.9 million).

The table below shows a specification of other financial obligations as at 31 December 2018.

Figures in PLN thousand	On demand	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Interest bearing borrowings	6,150	91	2,275	83,450	0	91,966
Financial liabilities	0	276	355	745	0	1,376
Trade liabilities	70,950	14,645	2	0	0	85,597
Other liabilities	5,180	512	0	0	0	5,692
Total liabilities	**82,280**	**15,524**	**2,632**	**84,195**	**0**	**184,631**

The comparative data as at 31 December 2017 are presented in the table below.

Figures in PLN thousand	On demand	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Interest bearing borrowings	0	41,922	28,233	17,516	0	87,671
Financial liabilities	0	147	380	5,738	0	6,265
Trade liabilities	16,346	67,951	0	0	0	84,297
Other liabilities	0	2,937	0	0	0	2,937
Total liabilities	**16,346**	**112,957**	**28,613**	**23,254**	**0**	**181,170**

Out of the trade liabilities presented as at 31 December 2018 as payable on demand, PLN 65,775 thousand refers to amounts due to related parties (as at 31 December 2017, trade liabilities payable on demand to related entities amounted to PLN 15,301 thousand). Trade liabilities do not carry any interest rate – they are usually payable within 60 days. The structure of trade liabilities to related parties and other entities is presented in the table below.

Figures in PLN thousand	31 December 2018	31 December 2017
Trade liabilities		
amounts due to related parties	77,995	77,434
amounts due to other entities	7,602	6,863
Total trade liabilities	**85,597**	**84,297**

Furthermore, in Note 21.1 of the financial statements the Company shows contingent liabilities and liabilities in respect of guarantees given that in the future might cause an outflow of cash from the company.

29. Capital management

Capital structure is managed at the level of the Group for which the Company is a parent. The Company seeks to maintain good credit rating and safe capital ratios to facilitate the Group's operations and increase its value for shareholders.

The Company manages its capital structure, and modifies it in response to changes in the economic conditions. To maintain or adjust its capital structure the Company may paid a dividend to shareholders, return the capital to shareholders or issue new shares. In the year ended 31 December 2018 and in the year ended 31 December 2017 no changes were made to the goals, rules and processes applicable in this area.

29.1. Net debt

For the purpose of the Group's and Parent's capital management, the Company monitors the level of capital using the gearing ratio, which is calculated as net debt to total equity increased by net debt. Net debt includes interest-bearing loans and advances and other financial liabilities, decreased by cash and cash equivalents. Equity includes the equity attributable to the shareholders of the Parent. The Company aims to maintain the ratio in the 20-40% range.

The table below shows a calculation of the Company's net debt in 2018

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017 restated data*
Interest bearing borrowings	91,966	87,671
Other financial liabilities	1,376	1,007
Less cash and cash equivalents	-1,849	-10,121
Net debt	**91,493**	**78,557**
Equity	306,838	292,949
Equity and net debt	**398,331**	**371,506**
Gearing (net debt/equity + net debt)	**23%**	**21%**

* the reasons and effects of the restated data published in earlier periods are described in Note 3.1

30. Employment structure

The average employment in the Company is presented in the table below.

	Year ended 31 December 2018	Year ended 31 December 2017
Management Board	4	4
Sale	79	72
Administration	39	48
Other	16	21
TOTAL	**138**	**145**

31. Social assets and Social Fund obligations

The Social Fund Act of 4 March 1994, as amended, stipulates that the Social Fund shall be created by the employees with at least 50 staff members (FTEs), as at the beginning of a given year. By virtue of its work regulations, the Company decided not to establish such Social Fund.

32. Events occurring after the balance sheet date

After the balance sheet date and until the approval of these unconsolidated financial statements no events, other than those described herein, took place that might materially affect the financial data presented in this report.

Person responsible for maintaining books of account
Monika Szczot

Management Board President
Krzysztof Domarecki

Vice President for Sales
Dariusz Ciesielski

Vice President for Marketing
Christian Dölle

Management Board Member
Elżbieta Korczyńska

Management Board Member for Operations
Bogusław Mieszczak