SELENA FM GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
WITH INDEPENDENT AUDITOR'S OPINION

Wrocław, 20 April 2018

CONSOLIDATED INCOME STATEMENT

Figures in PLN thousand	Note	Year ended 31 December 2017	Year ended 31 December 2016
Continued operations			
Revenue from the sale of products		1,100,478	943,616
Revenue from the sale of goods and materials		76,985	69,144
Revenue from the sale of services and lease		1,243	1,059
Sales	5	**1,178,706**	**1,013,819**
Cost of sales	6	836,011	680,849
Gross profit (loss)		**342,695**	**332,970**
Other operating income	7.1	8,277	6,577
Selling and marketing costs	6	192,823	180,386
General and administrative expenses	6	98,156	81,976
Other operating costs	7.2	16,559	41,554
Operating profit (loss)		**43,434**	**35,631**
Financial revenues	8.1	15,479	25,632
Financial expenses	8.2	43,195	16,988
Share in net profit/loss of the associate		485	481
Profit (loss) before tax		**16,203**	**44,756**
Income tax	9	9,364	12,507
Net profit (loss) on continued operations		**6,839**	**32,249**
Discontinued operations			
Loss on discontinued operations		–	–
Net profit (loss) for the financial year, including:		**6,839**	**32,249**
Net profit (loss) attributable to:	10		
– shareholders of the parent		6,820	32,030
– non-controlling interests		19	219
Earnings per share (continued operations) attributable to the shareholders of the parent (PLN/share)			
– basic		0.30	1.40
– diluted		0.30	1.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Profit after tax	**6,839**	**32,249**
Other comprehensive income not subject to reclassification to profit or loss	**0**	**0**
Other comprehensive income subject to reclassification to profit or loss:	**-11,369**	**4,962**
FX differences arising on translation of foreign affiliates	10,963	-105
FX differences on measurement of investments into the net assets of a foreign subsidiary	-25,789	6,159
Income tax	3,457	-1,092
Other comprehensive income for the period, after tax	**-11,369**	**4,962**
Total comprehensive income	**-4,530**	**37,211**
Attributable to:		
– shareholders of the parent	-4,491	36,990
– non-controlling interests	-39	221

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures in PLN thousand	Note	31 December 2017	31 December 2016
ASSETS			
Property, plant and equipment	13	220,825	231,803
Intangible fixed assets	14	55,475	54,110
Other fixed assets	15	7,558	8,707
Investments accounted for using the equity method	17	5,820	6,233
Other long-term receivables		367	372
Long-term portion of loans granted		45	71
Other long term financial assets	18	1,471	1,627
Deferred tax assets	9.4	21,970	24,191
Non-current assets		**313,531**	**327,114**
Inventories	19	193,040	144,844
Trade receivables	20	206,435	181,630
CIT claimed		10,041	4,191
Other short-term receivables	21	40,637	25,375
Short-term portion of loans granted		498	554
Other short-term financial assets	18	5,073	64,651
Cash and cash equivalents	22	52,921	54,704
Current assets		**508,645**	**475,949**
TOTAL ASSETS		**822,176**	**803,063**
EQUITY AND LIABILITIES			
Registered capital	23.1	1,142	1,142
FX differences arising on translation of foreign affiliates	23.4	-28,485	-17,174
Supplementary capital		551,402	525,681
Other reserves	23.2	9,633	9,633
Retained profit / (loss carried forward)		-111,457	-85,706
– retained profit / loss carried forward from previous years		-118,277	-117,736
– profit (loss) after tax		6,820	32,030
Equity attributable to the shareholders of the parent		**422,235**	**433,576**
Non-controlling interests	23.3	**490**	**553**
Total equity		**422,725**	**434,129**
Long-term portion of bank and other loans	24	12,714	158,730
Other financial liabilities	26	14,170	7,590
Other long-term liabilities	27	4,747	4,590
Deferred tax liabilities	9.4	3,817	6,812
Other long-term provisions	28	2,897	493
Non-current liabilities		**38,345**	**178,215**
Trade liabilities		152,015	109,570
Short-term portion of bank and other loans	24	139,415	19,360
Other financial liabilities	26	14,529	13,715
Income tax payable		770	2,188
Other short-term liabilities	27	42,881	30,528
Short-term provisions	28	11,496	15,358
Current liabilities		**361,106**	**190,719**
Total liabilities		**399,451**	**368,934**
TOTAL EQUITY AND LIABILITIES		**822,176**	**803,063**

CONSOLIDATED STATEMENT OF CASH FLOWS

Figures in PLN thousand	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit / loss before tax on continued operations			
Profit (loss) before tax		**16,203**	**44,756**
Adjusted by:			
Share in the result of the entities accounted for using the equity method		-485	-481
Depreciation		25,746	23,589
FX gains (losses)		21,572	-18,504
Interest and dividends		3,967	2,714
Profit / (loss) on investing activities		-2,633	4,689
Change in the balance of receivables	31	-48,182	6,464
Change in the balance of inventories	31	-57,195	-19,414
Change in the balance of obligations	31	48,498	19,080
Change in the balance of provisions		-5,360	11,594
CIT paid		-14,429	-5,020
Other	31	4,836	458
Net cash flows from operating activities		**-7,462**	**69,925**
Cash flows from investing activities			
Inflows from sale of tangible and intangible fixed assets		3,105	712
Acquisition of tangible and intangible fixed assets		-15,422	-26,922
Acquisition of a subsidiary, net of cash acquired (Uniflex, Oligo)		-3,716	0
Purchase of other financial assets		0	-24
Inflows from bond repayments		60,350	350
Sale of other financial assets		0	50
Dividends and interest received		4,138	4,587
Repayments of loans granted		295	350
Outflow on account of loans given		-210	-70
Other	31	255	-44
Net cash flows from investing activities		**48,795**	**-21,011**
Cash flows from financing activities			
Repayment of finance lease obligations		-5,106	-5,214
Inflows from bank / other loans received		91,138	21,452
Repayment of loans and advances		-115,234	-38,794
Dividends paid to owners		-6,850	-6,850
Interest paid		-7,415	-6,813
Other	31	330	188
Net cash flows from financing activities		**-43,137**	**-36,031**
Net decrease in cash and cash equivalents		**-1,804**	**12,883**
Change in cash and cash equivalents:		-1,783	12,805
net FX differences		17	-78
Cash and cash equivalents at the beginning of the period*		54,704	41,899
Cash and cash equivalents at the end of the period*		52,917	54,704

*including restricted cash:

as at 31 December 2017: PLN 0.1m

as at 31 December 2016: PLN 0.1m

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Figures in PLN thousand	Attributable to the shareholders of the parent							Capital attributable to non-controlling interests	Aggregate equity
	Registered capital	Supplementary capital	FX differences arising on translation of a foreign affiliate	Other reserves	Retained profit/ (loss carried forward): from previous years	from the current period	Total equity		
As at 1 January 2017	**1,142**	**525,681**	**-17,174**	**9,633**	**-85,706**	**0**	**433,576**	**553**	**434,129**
Net profit (loss) for the financial year	0	0	0	0	0	6,820	**6,820**	19	**6,839**
Other net comprehensive income for the period	0	0	-11,311	0	0	0	**-11,311**	-58	**-11,369**
Total comprehensive income for the period	**0**	**0**	**-11,311**	**0**	**0**	**6,820**	**-4,491**	**-39**	**-4,530**
Transfer of profit to the supplementary capital	0	25,721	0	0	-25,721	0	**0**	0	**0**
Dividend (SELENA FM S.A.)	0	0	0	0	-6,850	0	**-6,850**	0	**-6,850**
Cancellation of shares by the subsidiary (Orion PU Sp. z o.o.)	0	0	0	0	0	0	**0**	-24	**-24**
As at 31 December 2017	**1,142**	**551,402**	**-28,485**	**9,633**	**-118,277**	**6,820**	**422,235**	**490**	**422,725**

FOR THE YEAR ENDED 31 DECEMBER 2016

Figures in PLN thousand	Attributable to the shareholders of the parent							Capital attributable to non-controlling interests	Aggregate equity
	Registered capital	Supplementary capital	FX differences arising on translation of a foreign affiliate	Other reserves	Retained profit/ (loss carried forward): from previous years	from the current period	Total equity		
As at 1 January 2016	**1,142**	**463,447**	**-22,134**	**9,633**	**-48,652**	**0**	**403,436**	**332**	**403,768**
Net profit (loss) for the financial year	0	0	0	0	0	32,030	**32,030**	219	**32,249**
Other net comprehensive income for the period	0	0	4,960	0	0	0	**4,960**	2	**4,962**
Total comprehensive income for the period	**0**	**0**	**4,960**	**0**	**0**	**32,030**	**36,990**	**221**	**37,211**
Transfer of profit to the supplementary capital	0	65,056	0	0	-65,056	0	**0**	0	**0**
Cover of the loss from previous years	0	-2,822	0	0	2,822	0	**0**	0	**0**
Payment of dividend (SELENA FM S.A.)	0	0	0	0	-6,850	0	**-6,850**	0	**-6,850**
As at 31 December 2016	**1,142**	**525,681**	**-17,174**	**9,633**	**-117,736**	**32,030**	**433,576**	**553**	**434,129**

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Information about the Group

1.1. Activities of the Group

Selena has been trading since 1992. The core business of the Group includes production, distribution and sale of construction chemicals, building materials for doors and windows, and general building accessories. The Group has manufacturing plants located mainly in Poland, with trading operations in different countries in Europe, Asia and Americas.

1.2. Parent Company

The parent of the Group is Selena FM S.A. The Company 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 Parent 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.

1.3. Management Board of the Parent Company

As at 31 December 2016, the Parent Company's Management Board was composed of:

- Jean-Noël Fourel – Management Board President
- Hubert Rozpędek – Vice-President of the Management Board for Finance
- Marcin Macewicz – Management Board Member.

Changes in the Management Board in 2017:

- On 30 January 2017, the Supervisory Board of Selena FM S.A. appointed Mr Marcin Macewicz as Vice-President for Sales and Marketing.
- As of 1 March 2017, the Supervisory Board of Selena FM S.A. appointed Ms Agata Gładysz-Stańczyk to the position of Member of the Management Board.
- On 22 September 2017, the Supervisory Board of Selena FM S.A. appointed Ms Agata Gładysz-Stańczk to the position of Vice President of the Management Board.
- On 22 September 2017, the Supervisory Board of Selena FM S.A. appointed Mr Artur Ryglowski to the position of Management Board Member.

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, Industrial and Logistics Operations Director.

On 5 January 2018, Jean-Noël Fourel resigned as Management Board President.

On 12 January 2018, the Company's Supervisory Board adopted a resolution appointing Marcin Macewicz as acting Management Board President pending election of a new Management Board President.

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

1.4. Supervisory Board of the Parent Company

As at 31 December 2016, the Supervisory Board of the Parent Company 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.
- Hans Kongsted – Supervisory Board Member
- Francisco Azcona – Supervisory Board Member.

Changes in the Supervisory Board composition in 2017:

- On 26 May 2017, Mr. Francisco Azcona resigned from the position of Member of the Supervisory Board as of 26 May 2017
- On 20 June 2017, Mr. Hans Kongsted resigned from the position of Member of the Supervisory Board effective from 23 June 2017
- On 16 October 2017, the Extraordinary General Meeting of Shareholders adopted a resolution on extending the composition of the Supervisory Board by appointing new members: Ms Marlena Łubieszko-Siewruk, Mr Jacek Olszański and Mr Mariusz Warych.

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.

1.5. Audit Committee and Strategy and Innovation Committee

On 20 October 2017, the Supervisory Board of Selena FM S.A. appointed Audit Committee consisting of:

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

- Jacek Olszański – 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. The Issuer advises that until now the tasks of the Audit Committee were entrusted to Supervisory Board as a whole body.

On 20 October 2017, the Supervisory Board also decided to appoint the Strategy and Innovation Committee consisting 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.

1.6. Group members

The table below shows the ownership and organisational structure of the Group and division into operating segments. The data are presented as at 31 December 2017 and 31 December 2016.

All the companies in the table are consolidated using the full (line-by-line) method, except the associated company Hamil – Selena Co. Ltd., and House Selena Company Ltd., which are consolidated using the equity method.

The “owner” column specifies the name of the owner as at 31 December 2017.

	Region	Country	Entity	Reg.Office	Activity	Group's Share 31 December 2017	Group's Share 31 December 2016	Owner
European Union	Poland	Poland	Selena FM S.A.	Wrocław	Group Head Office			-
			Selena S.A.	Wrocław	Distributor	100.00%	100.00%	FM
			Orion PU Sp. z o.o.	Dzierżoniów	Manufacturer of foams, adhesives, distributor	99.95%	99.95%	SIT 1
			Carina Silicones Sp. z o.o.	Siechnice	Manufacturer of sealants, distributor	100.00%	100.00%	SIT
			Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	SIT
			Izolacja Matizol Sp. z o.o. **	Gorlice	Manuf. of roof coverings, hydroinsulation, distributor	100.00%	100.00%	SIT
			Tytan EOS Sp. z o.o.	Wrocław	Manufacturer of loose materials	100.00%	100.00%	SIT
			Selena Labs Sp. z o.o.	Siechnice	Research and Development	99.65%	99.65%	FM 1
			Selena Marketing International Sp. z o.o.	Wrocław	Intellectual property management	100.00%	100.00%	SA
			Taurus Sp. z o.o *	Dzierżoniów	Legal administration	100.00%	100.00%	SIT
			Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100.00%	100.00%	FM
			Selena Industrial Technologies Sp. z o.o.	Warsaw	Production management	100.00%	100.00%	FM
			Oligo Sp. z o.o.	Katowice	Research and Development	100.00%	24.00%	SL
	Western Europe	Spain	Selena Iberia slu	Madrid	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	FM
		Italy	Selena Italia srl	Limena	Distributor	100.00%	100.00%	FM
			Uniflex S.p.A.	Mezzocorona	Manufacturer of sealants, distributor	64.00%	-	FM 4
		Germany	Selena Deutschland GmbH	Hagen	Distributor	100.00%	100.00%	FM
	Central and Eastern Europe	Czech Republic	Selena Bohemia s.r.o.	Prague	Distributor	100.00%	100.00%	FM
		Romania	Selena Romania SRL	Ilfov	Distributor	100.00%	100.00%	FM
			EURO MGA Product SRL	Ilfov	Manufacturer of adhesives and cement mortars	100.00%	100.00%	ROM
		Hungary	Selena Hungária Kft.	Pécs	Distributor	100.00%	100.00%	FM
		Bulgaria	Selena Bulgaria Ltd.	Sofia	Distributor	100.00%	100.00%	FM
Eastern Europe and Asia	Eastern Europe	Russia	Selena Vostok Moscow	Moscow	Distributor	100.00%	100.00%	FM 2
			Selena Sever Moscow	Moscow	Distributor	-	100.00%	SA
		Kazakhstan	Selena CA L.L.P.	Almaty	Distributor	100.00%	100.00%	FM
			TOO Selena Insulations	Astana	Manufacturer of insulation systems	100.00%	100.00%	FM
			TOO Big Elit	Astana	Manufacturer of dry mortars	100.00%	100.00%	CA
		Ukraine	Selena Ukraine Ltd.	Kiev	Distributor	100.00%	100.00%	FM 2
	Asia	China	Weize (Shanghai) Trading Co., Ltd.	Shanghai	Distributor	100.00%	100.00%	FM
			Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer, distributor	100.00%	100.00%	FM
			Foshan Chinuri-Selena Chemical Co.	Foshan	Manufacturer of sealants, distributor	84.57%	84.57%	SA 1
			House Selena Trading Company Ltd.	Shanghai	Distributor	40.00%	-	NAN
		S.Korea	Hamil - Selena Co. Ltd	Kimhae	Manufacturer of foams	30.00%	30.00%	SA 3
	Middle East	Turkey	Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Man. of foams and sealants, distributor	100.00%	100.00%	FM
			POLYFOAM Yalitim Sanayi ve Tic Ltd.	Istanbul	Distributor	100.00%	100.00%	SA 2
N&S America	N&S America	Brazil	Selena Sulamericana Ltda	Curitiba	Manufacturer, distributor	100.00%	100.00%	FM 3
		USA	Selena USA, Inc.	Holland	Distributor	100.00%	100.00%	FM
			Selena USA Specialty Inc.	Holland	Property management	100.00%	100.00%	FM

** change of shares owner to Selena Industrial Technologies Sp. z o. o. on 20 January 2017 + resolution to rename the company (previously Orion Polyurethanes Sp. z o.o).*
*** on 29 December 2017, the company changed its legal form and was renamed (previously PMI "IZOLACJA - MATIZOL" S.A.)*

Explanations to the “Owner” column

FM - 100% owned by Selena SA (SFM)
FM 1 – shares owned by SFM, other shares are owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM)
FM 2 – shares are owned by Selena FM (99%) and Selena S.A. (1%)
FM 3 – shares owned by Selena FM (95%) and Selena SA (5%)
FM 4 – shares are owned by Selena FM, the remaining shares are held outside of the Group
SIT – 100% shares are owned by Selena Industrial Technologies Sp. z o.o.
SIT 1 – shares are owned by Selena Industrial Technologies Sp. z o.o. (99.95%), other shares outside the Group
NAN – associated company – owned by Selena Nantong Building Materials Co., Ltd.

SL - shares owned by Selena Labs Sp. z o.o. (100%)
SA – 100% owned by Selena SA
SA 1 – shares are owned by Selena SA, the remaining shares are held outside of the Group
SA 2 – shares are owned by Selena SA (85%) and Carina Silicones Sp. z o.o. (15%)
SA 3 – associate – shares are owned by Selena SA
ROM – 99.87% shares owned by Selena Romania, other shares held by Selena FM
CA – 100% shares are owned by Selena CA L.L.P.

1.7. Changes in the Group structure

1.7.1. Liquidation of Selena Sever Moscow

On 22 October 2015, Selena Sever Moscow was struck off the companies register. The information that the company was deregistered due to discontinuation of its business was received by the company's shareholder on 12 April 2017. The company did not carry on operations. Loss of PLN 33k on the loss of control was presented under operating costs.

1.7.2. Sale of shares in Taurus Sp. z o.o.

On 20 January 2017, Selena FM S.A. entered into an agreement with its connected company (Selena Industrial Technologies Sp. z o.o.) to sell its 100% stake in Orion Polyurethanes Sp. z o.o. The sales price was PLN 5,000. The share disposal did not have any impact on the Group's organisational structure. At the same time, on 20 January 2017, the General Meeting of Orion Polyurethanes Sp. z o.o. adopted a resolution renaming the company as Taurus Sp. z o.o. The changed name was registered on 25 April 2017.

1.7.3. Formation of a joint venture

On 21 December 2016, Selena Nantong Building Materials Co., Ltd. entered into a framework agreement with Shanghai Haozheng Construction Engineering Co. Ltd – a Chinese entity operating in the market of polyurethane foams and other construction chemicals. The agreement provided for strategic cooperation between the companies. The framework agreement sets out the key strategic directions of the cooperation and defines next steps to be taken by the parties to finalise individual agreements referred to in the framework agreement. Under the signed contract, the parties agreed to establish a joint venture in which Selena Nantong Building Materials Co. Ltd. undertook to acquire a 40% stake and the partner, Haozheng Construction Engineering Co. Ltd., a 60% stake.

On 28 March 2017, Selena Nantong Building Materials Co., Ltd. entered into further agreements with Shanghai Haozheng Construction Engineering Co. Ltd (Partner) under the framework agreement. The Parties signed the Articles of Association of JV for House Selena Company Ltd. This agreements and other agreements with the partner define, inter alia, strategic rules of cooperation in the market, rules and scope of operations of the new entity (including a share in management and supervision over the new entity), terms of trade cooperation between the parties and the rules of using Selena's trademarks by the new entity. The objects of the new company will include distributing and selling in China: foams, silicones and mounting adhesives under the brands owned by Selena Group and the partner, pursuant to licence agreements. Later on, the new company will market in China innovative construction chemicals based on the product portfolio of Selena Group. The purpose of the framework agreement is to boost Selena Group's development in the Chinese market.

The process of registration of House Selena Trading Company Ltd. was completed on 12 June 2017. Selena Nantong Building Materials Co. Ltd. acquired a 40% stake with a value of CNY 200 thousand. Selena Nantong Building Materials Co. Ltd. is entitled to a 30% share in net profit between 2017 and 2019 and to 40% from 2020 onwards. House Selena Company Ltd. is consolidated using the equity method.

1.7.4. Take-over of control over Uniflex S.p.A. – final settlement

On 29 March 2017, under the agreement signed between Selena FM S.A. and natural persons, Selena FM S.A. acquired 64% stake in the share capital of Uniflex S.p.A. with its registered office in Mezzocorona, Italy, becoming a majority owner of Uniflex S.p.A.

Selena FM S.A. acquired 192 000 shares of Uniflex S.p.A. with a nominal value of EUR 1 per share, representing 64% stake in the company's registered capital, for a total amount of EUR 1 664k. The shares of the acquired company were taken up in full and paid up in cash.

Acquisition of the majority shareholding by Selena FM S.A. is intended to strengthen the Group's position in Italy and in Western Europe. Thanks to synergies and cooperation with Selena Group, Uniflex S.p.A. will be able to supplement is products portfolio for the customers in Italy and Western Europe. At the same time, Selena Group will significantly increase its position in the market of acrylic products in Europe. The transaction will result in mutually complementary technologies, geographical development of distribution markets and synergies in the form of reduction of manufacturing costs and thus the costs of purchase of raw materials.

In addition, on 29 March 2017, both minority shareholders of Uniflex S.p.A. entered into an agreement where Selena FM S.A. made an irrevocable offer to purchase the remaining shares (call option), while the minority shareholders guaranteed to Selena FM S.A. an exercise of the option to purchase the remaining shares (put option). The put and call options may be exercised between 1 April and 30 June 2019 or between 1 April and 30 June 2020.

A unit value of a share representing the exercise price for the put and call option will be determined on the basis of valuation of Uniflex S.p.A. as at the day the option is exercised. In accordance with the agreement, the valuation of Uniflex S.p.A. will take place on the basis of a multiplier of the company's EBITDA (adjusted in accordance with the agreement). The ratio will be calculated on the basis of the financial results from the last two approved financial statements of the company, preceding the year when the option was exercised.

Once the above options are exercised, Selena FM S.A. will take up 100% of shares of Uniflex S.p.A. As presented below these consolidated financial statements are prepared on the assumption that at the time of acquisition transactions Selena took up 100% of the shares.

Reasons for application of provisional settlement as at the acquisition date

Using the provisions of IFRS 3 "Business combinations" (paragraph 61), the "provisional settlement" was adopted for the purpose of settlement of the acquisition with respect to the fair value of the acquired assets, particularly taking into account non-current assets, short-term liabilities and contingent commitments. The provisional settlement was applied as at 31 March 2017 on the basis of the estimated valuation of the obligation arising from the issue of the call option. In accordance with IAS 32 "Financial Instruments: Disclosure and Presentation", where the parent company is required to repurchase the shares of its subsidiary from minority shareholders, and an obligation arises to recognise a financial liability at the time of issuing the call option, regardless of the likelihood of the option being exercised. The financial liability should be recognised in the full present amount of the future payment for shares in connection with the exercise of the option issued. Due to the direct relationship between the call option and the acquisition of 64% of shares, it is justified to include those combined transactions that are part of the acquisition of a subsidiary and to apply IFRS 3 "Business Combinations" to its settlement. In accordance with this approach, these consolidated financial statements have been prepared on the assumption that Selena FM S.A. acquired 100% of the shares of Uniflex S.p.A. Accordingly, in the consolidated financial statements the value of the liability arising from the issuance of the call option was recognised, and the cost of acquisition was increased by a corresponding amount.

The settlement of the acquisition was finalised as at 31 December 2017. The data presented below relate to the final settlement of the acquisition. In comparison to the provisional settlement, there was no change in the fair value of net assets or goodwill.

Presented below are calculations re the goodwill arising on acquisition (at historical value):

Figures in PLN thousand	29 March 2017
Acquisition price	13,398
Fair value of the net assets acquired attributable to the Group's share (100%)	7,998
Goodwill arising on acquisition	**5,400**

As at the date of assumption of control, the consolidated report on the Group's financial position includes goodwill of PLN 5,400 thousand. Selena Group delivers on its development strategy focused on Selena's key markets (which is regarded as the area of western Europe). In the opinion of the Parent Company's Management Board, the acquisition has a great growth potential thanks to the expected development of acrylic products and a distribution strategy for those products.

The table below presents the components of the acquisition price:

Figures in PLN thousand	29 March 2017
Purchase of shares in accordance with the agreement, cash-paid	7,077
Valuation of the option of repurchase of minority shareholders	5,320
Valuation of deferred payments for existing shareholders	969
Other	32
Total	**13,398**

Valuation of the option of repurchase of minority shareholders was recognised in the unconsolidated statement of financial position of Selena FM S.A. under "Other financial liabilities".

Performance of the acquired entity

The Group's result adjusted as if the acquisition took place on 1 January 2017, is presented below:

figures in PLN thousand	Group with the company	Group without the company
Revenue from sales	1,178,706	1,192,554
Profit (loss) after tax	6,839	7,186

Acquisition price and net assets

The main items of assets and liabilities of Uniflex S.p.A. as at the control acquisition date are presented in the table below.

Figures in PLN thousand	29 March 2017
Non-current assets	2,033
Inventories	4,738
Trade receivables	14,936
Cash and cash equivalents	2,989
Other current assets	986
Total assets	**25,682**
Obligations in respect of borrowings	1,509
Trade liabilities	10,000
Other liabilities	6,175
Total liabilities	**17,684**
Net assets	**7,998**

Costs associated with the acquisition, recognised in the consolidated income statement were PLN 323 thousand, and were posted under external services costs.

Selected items of the net assets acquired

At the control assumption date, as part of the process of recognition of identifiable assets, liabilities and contingent liabilities of the acquired company existing as at the control assumption date, there were contingent liabilities identified of EUR 425 thousand, relating to the potential costs arising from the events dating back to 2003-2015. Valuation of the provisional liabilities was recognised in the net assets of Uniflex.

1.7.5. Taking control of Oligo Sp. z o.o.

On 1 August 2016, Selena Labs Sp. z o.o., the subsidiary, entered into an agreement to purchase 24% stake in Pretorian Sp. z o.o. for PLN 6,700. On 19 August 2016, Pretorian Sp. z o.o. was formally renamed as Oligo Sp. z o.o.

On 30 May 2017, Selena Labs Sp. z o.o. entered into an agreement for the purchase of the remaining 76% stake in Oligo Sp. z o.o. becoming the sole shareholder of the company. The purchase price for the shares was PLN 10,000. Until the date of the acquisition, Oligo Sp. z o.o. did not conduct any material activities. The transaction did not have any material impact on these consolidated financial statements.

1.7.6. Cancellation of shares of Orion PU Sp. z o.o.

On 19 October 2017, the Extraordinary General Meeting of Orion PU Sp. z o.o. decided to cancel 5,335 shares in the company's share capital with a total nominal value of PLN 533.5 thousand (5,333 shares held by Selena Industrial Technologies Sp. z o.o. and 2 shares held by a minority shareholder). The shares were cancelled voluntarily, with the shareholders' consent, following their purchase by the company. The total remuneration for the shares cancelled was PLN 63,945 thousand (including: PLN 63,921 thousand paid to Selena Industrial Technologies Sp. z o.o. and PLN 24 thousand paid to the minority shareholder). The remuneration was paid by 25 October 2017. The funds earmarked for payment to the shareholders for the shares cancelled came from the clean profit generated by the company. The share cancellation did not entail reduction of the share capital. The transaction did not have any impact on the Group's organisational structure.

1.7.7. Cancellation of shares in the subsidiary Selena Industrial Technologies Sp. z o.o.

On 24 October 2017, due to occurrence of the event specified in the Articles of Selena Industrial Technologies Sp. z o.o. that triggered automatic share cancellation, 1,081,248 shares in the company's share capital with a total nominal value of PLN 54,062 thousand were cancelled. As a result, in accordance with the Deed of Incorporation of Selena Industrial Technologies Sp. z o.o., the parent company Selena FM S.A. received remuneration of PLN 63,912 thousand for the shares cancelled. The remuneration was paid by 26 October 2017.

1.7.8. Increasing the share capital of Selena Bohemia s.r.o.

On 7 November 2017, the General Meeting of Shareholders of Selena Bohemia s.r.o adopted a resolution to increase the share capital by CZK 60 million through a cash contribution. The increase in the share capital of the subsidiary was registered on 3 January 2018.

1.7.9. Increasing the share capital of Selena Malzemeleri Yapi Sanayi Tic. Ltd.

On 25 December 2017, the share capital of Selena Malzemeleri Yapi Sanayi Tic Ltd was increased by 11,825 thousand Turkish lira, by issuing 11,825 shares worth 1,000 Turkish lira each. The increase in the share capital of the subsidiary was registered on 27 December 2017.

1.7.10. Change of legal form of Izolacja Matizol Sp. z o.o.

On 29 December 2017, the District Court in Kraków registered a change in the legal form of Przedsiębiorstwo Materiałów Izolacyjnych Izolacja-Matizol S.A. The company was transformed into a limited liability company Izolacja Matizol Sp. z o.o

2. Information about the financial statements

2.1. Data covered by the financial statements

These financial statements are consolidated financial statements of Selena FM Group. They cover the period of 12 months ended 31 December 2017 and data as at that date.

The income 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 2017 as well as comparative data for the period of 12 months ended 31 September 2016.

The statement of financial position covers the data presented as at 31 September 2017, and comparative data as at 31 December 2016.

2.2. Approval of the financial statements

These condensed consolidated financial statements were approved for publication on 20 April 2018.

2.3. Basis of preparation

These financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value.

2.4. Measurement and reporting currency

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

At the balance sheet date, the assets and liabilities expressed in foreign currency are valued using the mean rate applicable to the respective currencies at the end of the reporting period that has been set by for the particular currency by the National Bank of Poland (31 December 2017 and 31 December 2016). Items of the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows are measured at the arithmetic average of the average exchange rates announced for a given currency by the National Bank of Poland on the last day of each month of a given reporting period (year ended 31 December 2017 and for the year ended 31 December 2016).

Currency	31 December 2017	31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
1 USD	3.4813	4.1793	3.7439	3.9680
1 EUR	4.1709	4.4240	4.2447	4.3757
100 HUF	1.3449	1.4224	1.3723	1.4034
1 UAH	0.1236	0.1542	0.1402	0.1542
1 CZK	0.1632	0.1637	0.1614	0.1618
1 RUB	0.0604	0.0680	0.0644	0.0598
1 BRL	1.0510	1.2838	1.1697	1.1498
1 BGN	2.1326	2.2619	2.1703	2.2372
1 CNY	0.5349	0.6015	0.5552	0.5960
100 KRW	0.3269	0.3476	0.3333	0.3421
1 RON	0.8953	0.9749	0.9282	0.9739
1 TRY	0.9235	1.1867	1.0295	1.3109
100 KZT	1.0633	1.2659	1.1550	1.1620

2.5. Going concern

These financial statements have been prepared on the assumption that the Group companies 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 the Group companies' operations.

2.6. Statement of conformity

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the EU. Taking into account the ongoing IFRS implementation process in the EU, as regards the Group's operations there is no difference between the already implemented IFRS and the IFRS approved by the EU for the financial year ended 31 December 2016.

IAS and IFRS include the standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee (IFRIC).

Some entities of the Group keep their own books of account in accordance with the local accounting principles of the country in which they are established. The consolidated financial statements include adjustments which are not contained in the books of accounts of the Group companies, and which were introduced to bring the financial statements of those entities in line with the IFRS.

3. Accounting policies

3.1. Changes in the accounting policies

The accounting policies that were used in preparation of the financial statements are consistent with the policies used in preparation of the consolidated financial statements of the Group for the year ended on 31 December 2016, except for the changes resulting from implementation of new standards.

Information on the impact of applying new standards (IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers") on the financial statements for the period in which they will be applied for the first time is presented in Note 3.3.1. and 3.3.2.

3.2. New 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 Group's 2017 financial statements:

Amendments to IAS 7 Statement of Cash Flows – reconciliation of liabilities from financing activities approved by the EU on 6 November 2017 (applicable to the annual periods commencing on or after 1 January 2017). The reconciliation of changes in liabilities arising from financing activities is presented in Note 25 to these consolidated financial statements.

Other below changes to the changes to the existing standards have no material impact on the data presented in these financial statements:

Amendments to IAS 12 "Income Tax" – Recognition of Deferred Tax Assets for Unrealised Losses – ratified by the EU on 6 November 2017 (applicable to the annual periods commencing on or after 1 January 2017).

Amendments to IFRS 12 as a result of "Improvements to IFRS" (2014–2016 cycle) – made as part of the procedure of making annual amendments to IFRS (IFRS 1, IFRS 12 and IAS 28), designed mainly to address inconsistencies and clarify the terminology, approved in the EU on 7 February 2018 (the amendments to IFRS 12 apply to the annual periods commencing on or after 1 January 2017).

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

When approving these consolidated financial statements, the Company did not apply the existing standards, amendments and interpretations that have been published by IASB and approved for adoption in the EU, but have not become effective yet:

IFRS 9 Financial Instruments – approved by the EU on 22 November 2016 (applicable to the annual periods commencing on or after 1 January 2018). IFRS 9 sets out requirements for classification and measurement, impairment, derecognition and hedge accounting.

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS" – approved by the EU on 22 September 2016 (applicable to the annual periods commencing on or after 1 January 2018. This standard specifies how and when revenue is recognised, as well as the need for more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations related to revenue recognition.

IFRS 16 "Leases" (applicable to the annual periods commencing on or after 1 January 2019). In line with IFRS 16, the lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated as appropriate. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting substantially unchanged from its predecessor, IAS 17. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

Amendments to IFRS 2 "Share-Based Payments" – classification and measurement of share based payment transactions – approved by the EU on 27 February 2018 (applicable to the annual periods commencing on or after 1 January 2018).

Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – approved by the EU on 3 November 2017 – (applicable to the annual periods commencing on or after 1 January 2018 or at the time for first-time application of IFRS 9 "Financial Instruments").

Amendments to IFRS 15 "Revenue from Contracts with Customers" – Explanations to IFRS 15 – approved by the EU on 31 October 2017 – (applicable to the annual periods commencing on 1 January 2018 or thereafter).

Amendments to IFRS 1 and IAS 28 as a result of "Improvements to IFRS" (2014–2016 cycle) – made as part of the procedure of making annual amendments to IFRS (IFRS 1, IFRS 12 and IAS 28), designed mainly to address inconsistencies and clarify the terminology, approved by the EU on 7 February 2018 (the amendments to IFRS 1 and IAS 28 apply to the annual periods commencing on or after 1 January 2018).

Selena Group has decided not to use the possibility of earlier applications of the above standards or amendments to the existing standards.
According to the estimates of Selena Group, the foregoing new standards, interpretations and amendments to the existing standards, except for the standards presented below, would not have any material impact on the financial statements if they had been applied by Selena FM S.A. as at the balance sheet date.

The Management Board of the Parent Company expects that adoption of IFRS 16 Leasing may have a material future impact on the amounts presented under fixed assets and financial liabilities of the consolidated financial statements. The Group is in the process of analysing the impact of the new standard on the financial statements. A detailed analysis will be completed in 2018.

3.3.1. Implementation of IFRS 9 Financial Instruments

As at the date of publication of these consolidated financial statements, the Parent Entity and other Group companies finalised their analyses of the impact of IFRS on the opening balance, i.e. on 1 January 2018. The company will apply IFRS 9 from the effective date of the standard, without transforming the comparative data, which means that data for 2017 and 2018 will not be comparable, while any adjustments related to IFRS adjustments will be made as of 1 January 2018 and reflected in equity.

The Group has prepared a description of the principles of classification of financial assets. Based on them, the companies carried out business model tests and tests of cash flows originating solely from payments of principal and interest (SPPI) for all items of the statement of financial position considered significant as at 31 December 2017.

The Group carried out a detailed assessment of the impact of the introduction of IFRS 9 on the accounting policies operated by Selena Group. This assessment is based on currently available information and may be subject to changes resulting from acquisition of rational and evidence-based additional information during the period when the Company applies IFRS 9 for the first time. In the Group's opinion, the introduction of IFRS 9 will not have a material impact on the consolidated statement of financial position and the consolidated equity position of the Group, except for the impact on impairment. As at 1 January 2018, impairment allowances connected with implementation of the standard are PLN 0.2 million.

Based on the conducted analyses, it is expected that all financial assets measured at fair value until now will continue to be carried at fair value, while assets measured at amortised cost will continue to meet the criteria of the current valuation.

Trade receivables from other entities are held until receipt of contractual cash flows, and the the Group does not sell its trade receivables as part of factoring – they will continue to be measured at amortised cost through profit or loss. For the purposes of implementation of IFRS 9, a collective analysis of exposures was performed (with the exception of those which are subject to individual assessment as impaired). A simplified matrix of write-downs was applied for individual age ranges based on expected credit losses over the entire life of the receivables (based on default ratios determined using historical data).

Cash and cash equivalents – the Group estimated allowances based on the likelihood of default determined using external bank ratings. A decision was made not to create allowances due to materiality of individual items.

Liabilities – the Group does not expect IFRS 9 to affect the valuation and presentation of the Company's liabilities. The implementation of the new Standard will entail an extension of the scope of disclosures in the financial statements.

As the Group currently does not apply hedge accounting principles, the application of IFRS 9 will have no material impact on the consolidated financial statements of the Group in this regard.

3.3.2. Implementation of IFRS 15

Selena Group will apply IFRS 15 "Revenue from Contracts with Customers" as of its effective date, using the modified retrospective approach, i.e. with the combined effect of the first-time adoption of IFRS 15 on the date of first application data (which could result in an equity adjustment a at 1 January 2018) , without adjusting the comparative data.

The Group analysed the impact of IFRS 15 on the principles applied. This assessment is based on currently available information and interpretations re IFRS 15 and may be subject to changes resulting from acquisition of additional information during the period when the Company applies IFRS 15 for the first time and as a result of changes to the interpretation of the standard. The Group is going to monitor any future changes in this area. The Group has analysed its contracts with customers in accordance with the "Five Steps Model", which is necessary for correct determination of revenues in accordance with IFRS 15 – from identification of the contract (or groups thereof), to identification of individual liabilities, determination of prices and their allocation to individual liabilities to income recognition.

The Group performed a detailed analysis of the impact of IFRS 15 on the current method of recognition of revenues from the Group's contracts, particularly in terms of the moment and value of the revenue recognised, and verified correctness of presentation of individual revenue items.

Based on the analysis, it has been found that the adoption of IFRS 15 will not have any material impact on the Company's financial statements at the time of the first adoption of the standard, i.e. in the period commencing on 1 January 2018 (no impact on equity). Due to the application of the new standard, there will be changes in the presentation of:

- provisions for discounts granted to customers – harmonisation of presentation in: liabilities under the contract contract instead of reduction of trade receivables (PLN 7.4 million as at 1 January 2018);
- transport costs, if the Company does not generate a separate revenue from this category – in selling expenses rather than in the cost of sales (PLN 0.5 million as at 1 January 2018).

Based on the analysis of contracts with customers, the Group estimates that the implementation of the IFRS 15 will not have any impact on the Group's equity as at 1 January 2018. However, there will be presentation changes in the consolidated statement of financial position and in the income statement. There will be increased requirements re disclosures (those imposed by IFRS 15 are more detailed that those resulting previously from IAS 18 and IAS 11 and their related interpretations).

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 20 April 2018 were not yet approved for use in the EU (the following effective dates apply to the full version of the standards):

IFRS 14 "Regulatory Deferral Accounts" (applicable to the annual periods commencing on or after 1 January 2016). The European Commission has decided not to propose for endorsement the interim standard for application across the EU pending publication of the full version of IFRS 14.

IFRS 17 "Insurance Contracts" (applicable to the annual periods commencing on or after 1 January 2021);

Amendments to IFRS 9 "Financial Instruments" regarding prepayment features with negative compensation (applicable to the annual periods commencing on or after 1 January 2019);

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date of the amendments has been deferred pending finalisation of the project on equity accounting);

Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (applicable to the annual periods commencing on or after 1 January 2019);

Amendments to IAS 28 "Investments in Associates and Joint Ventures" regarding long-term interests in associates and joint ventures (applicable to the annual periods commencing on or after 1 January 2019).

Amendments to IAS 40 "Investment Property" – transfers of investment properties (applicable to the annual periods commencing on or after 1 January 2018).

Changes to different standards: Improvements to IFRS (2015–2017 cycle) – made as part of the procedure of making annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12, IAS 23) designed mainly to address inconsistencies and clarify the terminology (applicable to the annual periods starting on or after 1 January 2019).

IFRIC Interpretation 22 IFRIC Interpretation 22—Foreign Currency Transactions and Advance Consideration (applicable to the annual periods commencing on or after 1 January 2018).

Interpretation IFRIC 23 "Uncertainty in Income Tax Settlement" (applicable to the annual periods commencing on or after 1 January 2019).

Still, the area of accounting for hedges of assets and liabilities portfolio remains unregulated and any rules in this regard have not been approved for application in the EU.

3.5. Significant accounting policies

3.5.1. Consolidation rules

These consolidated financial statements include the financial statements of Selena FM S.A. and the financial statements of its subsidiaries. After adjustments required to ensure compliance with IFRS, the financial statements of subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting principles applied for transactions and economic events of a similar nature. In order to eliminate any differences in the applied accounting policies, adjustments are also implemented on the consolidated level.

All significant balances and transactions between the Group's entities, including unrealised profits arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, unless they are evidence for impairment.

Subsidiaries are consolidated from the date the Group assumes control over them and cease to be consolidated on the day the control ceases. A control by a parent entity is said to exist where the entity is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Rules for recognising put options regarding non-controlling interests

Where a controlling interest is acquired in a subsidiary, if the Group does not own all shares in the entity and at the same time issues a put option for other shares, the entity takes into account whether all the criteria for acquiring ownership of all the shares pursuant to IAS 32 have been met. If most of the conditions for the transfer of ownership of all shares are met, the settlement of the acquisition of the subsidiary will take place on the assumption of acquisition of 100% of the shares. In such a case, the Group recognises a financial liability in respect of the financial instrument with the put option for the shares based on the provisions of IAS 32 and, in accordance with IFRS 3, reflects them in the cost of combination of the entities; any subsequent changes in the value of this liability are recognised in profit or loss of the current period. Consequently, no non-controlling interest arises out of such a transaction.

3.5.2. Investments in associates

Investments in associates are recognised using the equity method.

Associates are entities which are significantly influenced by the parent entity directly or through its subsidiaries, and which are neither subsidiaries nor joint ventures of the parent entity. Valuation of the shares held by the parent entity using the equity method is based on the financial statements of the associates. The financial year of associates and the parent company is the same. Associates apply accounting policies which are in conformity with the laws applicable to their place of establishment. Before calculating the share in the net assets of associates, the necessary adjustments are made to bring the financial data of these entities with the IFRS adopted by the Group.

Investments in associates are recognised in the balance sheet at cost increased by subsequent changes in the value of the parent's share in the net assets of these entities, less any impairment allowances. The share in profits or losses of associates is reflected in the consolidated profit or loss of the Group.

Impairment assessment of investments in associates takes place when there are indications of impairment or when impairment allowance made in previous years is no longer required.

3.5.3. Share in joint ventures

Shares in joint ventures of the Group are recognised using the equity method. Before calculation of the share in the net assets of joint ventures, appropriate corrections are made to ensure their financial data comply with the IFRS adopted by the Group.

Investments in joint ventures are tested for impairment where any indications of impairment have occurred or if an impairment charge made in the previous years is no longer needed.

3.5.4. *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 financial 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.

Functional currencies for foreign subsidiaries are local currencies. At the balance sheet date, the assets and liabilities of the entities are converted into the Group's presentation currency at the rate applicable at the balance sheet date, and their profit and loss account and statements of comprehensive income are converted at the average weighted exchange rate for the particular financial period. The foreign exchange differences arising from this calculation are recognised in other comprehensive income and reported in a separate component of the equity. At the time of disposal of a foreign entity, the FX differences accumulated in equity, relating to a particular foreign entity, are recognised in the profit and loss account.

In its unconsolidated financial statements, the entity recognises receivables from and loans granted to its subsidiaries. If in the Management Board's opinion such instruments represent investments into net assets (i.e. are a part of financing of the subsidiary, and their recovery is not planned in the near future), then the exchange differences from the valuation of such assets arising in the separate financial statements of the entities are presented in the Group's consolidated financial statements as a element of the statement of comprehensive income. Such recognition does not affect the result presented in the separate financial statements of the individual entities.

3.5.5. *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.

Where fixed assets consist of components of a significant value, and have different useful lives, such components are presented separately. The costs of general repairs are also treated as components of fixed assets.

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 22
Office equipment	from 3 to 5
Vehicles	from 3 to 8
Other fixed assets	from 3 to 10

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

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 given item of the tangible fixed assets may be removed from the balance sheet after its sale, or if no economic benefits arising from the further use of such a component of assets are expected. 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.

3.5.6. 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.

3.5.7. 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.
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.

<u>Operating lease</u>

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.

3.5.8. 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.

The enterprise determines if the useful life of an intangible asset is limited or indefinite. Intangible assets with a limited life are amortised throughout the period of their use, and are tested for impairment each time when indications of impairment are identified.

The estimated economic useful life of software licences is 2-5 years, and 10-40 years for trademarks.

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 of intangible assets 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 balance sheet are measured as a difference between the net inflows from sale and the carrying amount of the asset, and are recognised in the profit or loss in the period at the time of the derecognition.

3.5.9. Goodwill

Goodwill arising on acquisition of an entity is initially recognised at the purchase price constituting the excess of:

- the sum of (i) payment made (ii) amount of any non-controlling interests in the acquired entity and (iii) in the case of combination of entities in fair value stages as at the take-over of a share in the capital of the acquired entity, previously owned by the acquiring entity.
- over the net value of the identifiable assets and liabilities acquired.

After the initial recognition, goodwill is reported at cost less any accumulated impairment allowances. The impairment test is carried out once a year or more often if required. Goodwill is not amortised.

As at the acquisition date, the goodwill acquired is allocated to each of cash-generating units that can benefit from the synergy of the combination. Each unit or group of units to which goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment defined by IFRS 8 Operating Segments.

An impairment allowance is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill was allocated. Where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment allowance is recognised. Where goodwill is a part of a cash-generating unit and part of the operations within this unit is sold, the goodwill associated with the sold business is included in its carrying amount when determining gains or losses from the sale of such activity. In such circumstances, goodwill is sold based on the relative value of the business sold and the value of the part of the cash-generating unit retained.

3.5.10. Financial instruments

Financial instruments are divided into the following categories:

- financial assets held to maturity
- financial assets measured at fair value through profit and loss
- loans granted and receivables
- financial assets available for sale
- liabilities measured at fair value through profit and loss
- other liabilities measured at amortised cost.

Financial assets held to maturity are assets, other than derivatives, with determined or determinable payments and a stated maturity, which the entity intends and is able to retain until maturity, other than:

- assets designated on initial recognition as assets measured at fair value through profit and loss

- assets designated as available for sale
- assets that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as long-term assets if their maturity is longer than 12 months after the balance sheet date.

Financial assets measured at fair value through profit and loss are the financial instruments acquired to generate profits on short-term price fluctuations. A financial instrument is classified to this category if its meets one of the following conditions:

a) is classified as held for trading, i.e.
    - acquired with an intention of sell-off in a short-term, or
    - is a part of the portfolio of jointly managed financial instruments, which are likely to generate profits in the short-term, or
    - is a derivative, except derivatives covered by hedge accounting, and financial guarantees agreements
b) was classified to this category under IAS 39 at the time of initial recognition.

Financial assets 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 value of such instruments are reflected in the profit and loss account as financial revenues or expenses.

If a contract contains one or more embedded derivatives, the whole contract may be classified to the category of financial assets measured at fair value through profit and loss. This does not apply in the cases where the embedded derivative does not have any major influence on the cash flows from the contract or it is expressly prohibited to separate the embedded derivatives.

Loans and receivables are financial assets other than derivatives, with determined or determinable payments, not quoted on active market. They are included in current assets unless their maturity date is longer than 12 months from the balance sheet date. Loans grated and receivables with a maturity longer than 12 months after the balance sheet date are included in fixed assets. Loans granted and receivables are measured at amortised cost.

Financial assets available for sale are the financial assets that are not derivatives, which:

- have been classified as available for sale, or
- do not belong to any of the previously specified three asset categories.

Financial assets available for sale are recognised at fair value increased by transaction costs that may be directly allocated to the purchase or issue of the financial asset. Where no stock quotations exist in the active market, and their fair value may not be reliably estimated using alternative methods, financial assets available for sale are measured at cost less impairment. The difference between the fair value and the cost of acquisition of the assets available for sale (if a market price exists, determined in an active regulated market or the fair value may be determined in another reliable manner), after reduction by deferred tax, is recognised in other comprehensive income. A decrease in the value of assets available fore sale cause by impairment is reflected in the profit and loss account as a financial expense.

Purchase and sale of financial assets are recognised at the transaction date.
At the time of initial recognition, a financial asset is measured at fair value, increased – in the case of an asset that is not classified as measured at fair value through profit and loss – by the transaction costs that may be directly allocated to the acquisition.

A financial instrument is derecognised if the entity loses control over the contractual rights that make up the financial instrument; usually this happens when the instrument is sold or when all the cash flows attributed to the instrument are transferred to an independent third party.

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, or
- estimated likely payment.

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 the profit and loss account as financial revenues or expenses.

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 at amortised cost using the effective interest rate method.

3.5.11. Impairment of financial assets

At each balance sheet date, the entity assesses if there are any objective indications of impairment of an asset or a group of financial assets.

<u>Interest carried at amortised cost</u>

If there are objective indications of impairment, the impairment charge is calculated as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows (excluding future losses on account of uncollected receivables), discounted using the original effective interest rate (i.e. the rate determined on initial recognition). The carrying amount of the asset is reduced by the impairment charge. Losses are reflected in the profit and loss account.

The Group first determines if there are any objective indications of impairment of individually significant financial assets, and the indications of impairment of assets that are not individually significant. If such analysis shows that there are no objective indications of impairment of an individually assessed financial asset, significant or not, the entity includes such asset to the group of financial assets with a similar credit risk profile and tests the assets for impairment collectively. The assets that are individually tested for impairment and for which an impairment charge was recognised or a decision was made that the existing charge would not change, are excluded from collective impairment test.

If in the subsequent period the impairment charge is reduced, and the reduction may be objectively linked to an event occurring after recognition of the charge, the previously recognised charge is reversed. Subsequent reversal of the impairment charge is recognised in the profit and loss account to the degree that at the date of the reversal the book value of the asset was not higher that its amortised cost.

<u>Financial assets measured at cost</u>

If there are objective indications of impairment of a not listed equity instrument that is not carried at fair value because its fair value may not be reliably estimated, or a connected derivative that must be settled by the provider of such not listed equity instrument, then the amount of the impairment loss is calculated as a difference between the book value of the financial asset and the current value of the estimated future cash flows discounted using the current market rate of return for similar financial assets.

<u>Financial assets available for sale</u>

If there are objective indications of impairment of a financial asset available for sale, then the amount being a difference between the purchase price of the asset (less any capital and interest payments and its present fair value less any impairment charges previously recognised in the profit and loss account, is derecognised from equity and transferred to the profit and loss. Reversals of impairment charges for the value of equity instruments classified as available for sales are not recognised in the profit and loss account. If in the subsequent period the fair value of the debt instrument available for sale increases, and the increase may be objectively linked to an event occurring after recognition of the impairment charge in the profit and loss account, then the amount of the reversed charge is included in the profit and loss account.

3.5.12. Inventories

Inventory is measured at the lower of: cost or net realisable amount. The cost of generation of finished good and work-in-progress consists of the cost of direct materials and labour and the relevant indirect products costs determined on the assumption of a normal use of production capacity.

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 inventory is measured by determining its value using the FIFO method.

3.5.13. Trade and other receivables

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.

3.5.14. 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. Overdrafts are presented in the balance sheet under loans and advances in short-term liabilities.

3.5.15. 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.

3.5.16. Trade and other liabilities

Trade liabilities are measured at the value of the payment due.

Financial liabilities are measured at amortised cost using the effective interest rate, except the liabilities classfied at measured at fair value through profit and loss.

An expired financial liability is derecognised from the balance sheet (i.e. if the contractual obligation 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 the profit and loss account.

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.

3.5.17. 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.

3.5.18. 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. In the case of foreign companies, the rules for granting severance payments are regulated by the laws of the country concerned.

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.

3.5.19. Revenues

Revenues are recognised at the amount of probable economic benefits flowing from the particular transaction, and where the value of the revenue may be reliably estimated. Revenues are recognised at fair value of the payment received or due, reduced by indirect taxes not due to the seller, and discounts. Recognition of revenues is subject to the criteria outlined below.

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.

Interest

Interest income is recognised gradually as the interest is earned (using the effective interest rate method, which discounts the future cash flows over the estimated life of the financial instruments) relative to the net carrying amount of the financial instrument.

Dividends

Dividends are recognised at the time of determination of the shareholders' rights to dividend.

Rental (operating lease) income

Income from the lease of office space is recognised on a straight-line basis over the lease term.

3.5.20. 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 is calculated using the balance sheet obligations method for all the temporary differences existing at the balance sheet date between the tax value of assets and liabilities, and their carrying amount shown in the financial statements.
A deferred tax liability is recognised for all the 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 is realised or the liability is reversed. 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 the 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 balance sheet as a part of receivables or liabilities.

3.5.21. 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 instruments entitling their holders to shares were converted into ordinary shares.

3.5.22. Transactions settled through equity instruments

The cost of transactions settled with staff in equity instruments is recognised by reference to the fair value at the date when the respective rights were awarded. Fair value is determined by an independent valuer. Measurement of the equity-settled payments takes account of the market conditions of the rights allocation (associated with the price of the parent's shares) and other conditions than those relating to the rights allocation.

The cost of equity-settled transactions is recognised together with the corresponding increase in the value of equity in the period when the conditions relating to the financial results and / or performance of service were fulfilled, ending on the date when the particular employees receive full entitlement to the benefits ("vesting date"). The aggregate cost in respect of equity–settled transactions recognised at each balance sheet date until the vesting date reflects the passage of the vesting period and the number of awards to which – according to the parent's management at that date, based on the possibly most accurate estimates of the number of equity instruments - rights will be finally acquired.

No costs will be recognised in respect of the awards to which rights will not be finally acquired, except for the awards for which vesting depends on market conditions or other conditions than those relating to the vesting, which are treated as acquired, regardless of whether or not the market conditions or the other conditions than those relating to the vesting are fulfilled, provided that all the other conditions relating to effectiveness/performance and / or provision of service are fulfilled. If the conditions for allocation of equity-settled awards are modified, to meet the minimum requirement costs are recognised as if the conditions have not been modified. Furthermore, costs are recognised in respect of each increase in the value of the transaction as a result of the modification, measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if the rights to the award have not been acquired at the cancellation date, and any not yet recognised costs in respect of the award are recognised immediately. This also relates to the awards for which the conditions other than those relating to the vesting, controlled by the parent or the employee, have not been met. However, where the cancelled award is replaced by a new award – determined as a supplementary award on the date of its allocation, the cancelled award and the new award are treated as a modification of the original award, i.e. in the manner outlined above.

3.5.23. Subsidies

In the event of a reasonable certainty that the subsidy will be obtained and all the associated requirements will be satisfied, then government subsidies are recognised at their fair value.

If the subsidy relates to a given cost item, then it is recognised as ra reduction in the costs that the subsidy is intended to offset. If the grant relates to an asset, then subsidies are included in revenue over one or more periods. The goal is to ensure matching of subsidy revenues with their corresponding costs.

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. Further details are given in Note 30.

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 goodwill and other intangible and tangible fixed assets

The Company carries out impairment tests at least once a year. This requires estimation of the value in use of the CGU to which the goodwill is allocated. 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.

With the same approach, the Group also carries out impairment tests for its intangible assets with a specified life, and the fixed assets, but such tests are undertaken only where indications of impairment exist. Such indications may include, e.g. long-term adverse market changes and losses sustained by a particular entity. In the case of a parent entity, an indication of impairment may be a situation when the capitalisation level occurring in a longer time period does not cover the carrying amount of the company's net assets.

Impairment tests for fixed assets may use the method of discounted cash flows for the given CGU. Where such method is used, the entity must use business assumptions and such variables as the cost of capital and the residual growth rate, whose value and volatility is determined on the basis of a subjective judgement of the Management. Such judgement is based both on internal sources (budgets of individual units, profitability forecasts) and external sources (publically available macroeconomic and microeconomic data). The assumptions used for impairment tests are presented in Note 16.4 to this report.

Impairment charges for receivables

Allowances for doubtful accounts are recognised in the event of objective indications of impairment of the debtors. Impairment charges are estimated based on the realisable future cash flows. Both the amount and time distribution of such cash flows are determined based on the professional judgement of the Group's Management.

Impairment charges for inventory

Inventory is measured at cost or at net realisable amount, whichever is lower. The Management uses their judgement to determine the possibility of selling the inventory and to determine the realisable sales price.

Depreciation / amortisation rates

Depreciation / amortisation rates are determined based on the estimated useful life of the tangible and intangible assets. Each year the Group companies review the adopted useful lives based on their current estimates.

Deferred tax assets

Deferred tax assets are recognised if the projected tax results confirm that such tax may be used. However, a deterioration in the tax results in the future might undermine such assumption.

5. Operating segments

The organisation structure of Selena FM Group is managed through the data received from the individual geographic segments. To the extent permitted by IFRS 8, based on the similarity of location, characteristics of the business and economic environment, they have been grouped into the following reporting segments:

- European Union
- Eastern Europe and Asia
- North America and South America

Operating results of the segment are primarily measured using the EBITDA ratio (operating profit increased by depreciation,) which is derived directly from the reports that are the basis for preparation of the consolidated financial statements. The accounting principles used for preparation of the financial data for reporting segments comply with the Group's accounting policy described in these financial statements.

The financial statements of the entire Group are regularly reviewed by the Management Board of the Parent Company for the purpose of decision-making. The Management Board is also responsible for allocation of resources in the Group.

The profit of a segment is the profit generated by the individual segments without allocation of the administrative expenses, Management Board’s remuneration, finance income and expenses, and income tax charge. Non-allocated assets include settlements on account of current and deferred income tax. Revenues are allocated to segments based on the seller’s registered office location.

Management of the Group’s funding sources, finance income and expense management and the taxation policy are operated at the Group level and are not allocated to operating segments.

Prices in the transactions between the operating segments are determined on an arm's length principle as in the transactions with third parties.

The tables below show date on the revenues and profits of the individual geographic segments.

Year ended 31 December 2017 Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolid. adjustments and non-allocated results	Total
Sales to external customers	726,093	382,940	69,673	1,178,706	0	1,178,706
Sales within a segment	755,891	13,162	0	769,053	-769,053	0
Sales between segments	277,387	6,628	357	284,372	-284,372	0
EBITDA	181,274	28,734	2,551	212,559	-143,379	69,180
Depreciation	-15,021	-3,054	-161	-18,236	-7,510	-25,746
Operating profit (loss)	**166,253**	**25,680**	**2,390**	**194,323**	**-150,889**	**43,434**
Net financial revenue / (expenses)	0	0	0	0	-27,716	-27,716
Share in the profit of an associated undertaking	0	485	0	485	0	485
Income tax	0	0	0	0	-9,364	-9,364
Net profit (loss) for the year	**166,253**	**26,165**	**2,390**	**194,808**	**-187,969**	**6,839**
Capital expenditure	15,181	4,387	46	19,614	-	19,614

Year ended 31 December 2016 Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolid. adjustments and non-allocated results	Total
Sales to external customers	634,375	309,694	69,750	1,013,819	0	1,013,819
Sales within a segment	645,905	3,166	0	649,071	-649,071	0
Sales between segments	233,860	6,809	0	240,669	-240,669	0
EBITDA	145,024	7,468	2,269	154,761	-95,541	59,220
Depreciation	-15,283	-2,488	-168	-17,939	-5,650	-23,589
Operating profit (loss)	**129,741**	**4,980**	**2,101**	**136,822**	**-101,191**	**35,631**
Net financial revenue / (expenses)	0	0	0	0	8,644	8,644
Share in the profit of an associated undertaking	0	481	0	481	0	481
Income tax	0	0	0	0	-12,507	-12,507
Net profit (loss) for the year	**129,741**	**5,461**	**2,101**	**137,303**	**-105,054**	**32,249**
Capital expenditure	14,186	15,453	275	29,914	-	29,914

The tables below show selected assets of the individual geographic segments as at 31 December 2017 and 31 December 2016.

31 December 2017 Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolid. adjustments	Total
Segment assets	941,298	193,610	26,582	1,161,490	-377,145	784,345
Investment in an associate	0	5,820	0	5,820	0	5,820
Non-allocated assets	0	0	0	0	0	32,011
Total assets	**941,298**	**199,430**	**26,582**	**1,167,310**	**-377,145**	**822,176**

31 December 2016 Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolid. adjustments	Total
Segment assets	1,007,237	190,911	36,658	1,234,806	-466,358	768,448
Investment in an associate	0	6,233	0	6,233	0	6,233
Non-allocated assets	0	0	0	0	0	28,382
Total assets	**1,007,237**	**197,144**	**36,658**	**1,241,039**	**-466,358**	**803,063**

Reconciliation of the operating profit of the reporting segments with the figures presented in the income statement:

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Operating profit of the reporting segments	**194,292**	**136,822**
Net financial revenue / (expenses)	-27,716	8,644
Other non-allocated income/costs*	-150,858	-101,191
Share in the profit of an associated undertaking	485	481
Income tax	-9,364	-12,507
Net profit (loss) for the year	**6,839**	**32,249**

* General and administrative expenses and consolidation adjustments

6. Operating costs

6.1. Costs by type

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Use of materials and energy	695,194	555,554
Cost of employee benefits	172,795	150,002
Depreciation	24,856	21,869
External services, including:	138,072	127,597
transport and logistics	51,951	49,402
advisory	22,155	19,770
lease, property protection	17,222	15,895
repair services	2,122	2,028
telecommunication services	1,715	1,681
other	42,907	38,821
Entertainment and advertising costs	11,080	12,463
Business travel costs	8,949	6,286
Fees and charges	4,511	4,103
Other costs by type	6,432	8,301
Cost of goods and materials sold	64,573	60,897
Direct cost of service sold (recharged costs)	1,079	668
Operating costs	**1,127,541**	**947,740**
change in the balance of finished goods	-551	-4,529
Total	**1,126,990**	**943,211**
including:		
Cost of sales	836,011	680,849
Selling and marketing costs	192,823	180,386
General and administrative expenses	98,156	81,976

6.2. Cost of employee benefits

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Salaries	140,820	122,738
Social insurance costs	27,805	23,739
Other costs of employee benefits	4,835	4,649
Total cost of employee benefits	**173,460**	**151,126**
including:		
Cost of sales	44,459	39,830
Selling and marketing costs	81,917	72,293
General and administrative expenses	46,419	37,879
Other operating costs - unutilised production capacity	665	1,124

6.3. Depreciation/amortisation

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation of tangible assets	20,578	19,755
Amortisation of intangible assets	4,977	3,629
Depreciation/amortisation of other assets	191	205
Total depreciation/amortisation	**25,746**	**23,589**
including:		
Cost of sales	13,527	12,229
Selling and marketing costs	4,368	3,990
General and administrative expenses	6,961	5,650
Unutilised production capacity	890	1,720

7. Other operating revenues and operating costs

7.1. Other operating income

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Profit from disposal of non-financial fixed assets	410	457
Subsidies	2,132	1,260
Reversal of impairment charge for receivables	658	102
Reversal of impairment charge for inventory	646	368
Inventory surplus	85	387
Damages	1,215	975
Provisions released	818	545
Other	2,313	2,483
Total other operating revenues	**8,277**	**6,577**

Revenues from subsidies primarily relate to the projects carried out by Selena Labs Sp. z o.o. (PLN 1,404 thousand) and Selena Iberia slu (PLN 400 thousand) – R&D activity.

Other forms of public aid obtained by the Group companies relate to tax exemptions, as described in Note 9.5 of this report.

7.2. Other operating costs

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Loss on disposal of non-financial fixed assets	40	213
Impairment of tangible fixed assets	612	4,259
Impairment charge for receivables	2,943	10,925
Uncollectible receivables written off	287	1,009
Impairment charge for inventories	1,777	2,034
Liquidation of inventories	3,010	2,923
Inventory shortfall	644	954
Loss of control over subsidiary	33	20
Damages, penalties, fines	2,148	1,057
Provisions raised	1,020	10,390
Other	4,045	7,770
Total other operating costs	**16,559**	**41,554**

Another material item of operating costs is the cost of unutilised production capacity in production companies of PLN 2,487 thousand for 2017 (PLN 6,225 thousand for 2016). The decrease in the cost of unutilised production capacity mainly results from the discontinued recognition of the cost of unutilised production capacity in Selena Iberia slu due to the higher production in 2017.

8. Financial revenues and expenses

8.1. Financial revenues

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
FX gains	10,110	21,285
Interest on deposits and bank accounts	125	131
Interest on bonds	3,413	4,045
Other interest	117	68
Dividends and profit sharing	189	52
Derivative financial instruments	1,258	0
Profit on disposal of long-term investments	0	5
Other financial revenues	267	46
Total financial revenues	**15,479**	**25,632**

8.2. Financial expenses

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Interest on bank and other loans	7,221	6,529
Interest on finance lease liabilities	372	329
Other interest	53	119
Provision for interest expenses	0	1,155
Derivative financial instruments	0	1,297
FX losses	34,828	5,062
Other financial costs	721	2,497
Total financial expenses	**43,195**	**16,988**

The Group's net result was primarily influenced by the net financial income, including by valuation of open currency positions (trading settlements and loans received/granted). In 2017, the negative balance of FX differences was PLN 24.7 million. For comparison, over 12 months of 2016, the Group's net FX position was PLN 16.2 million. In 2017, there was an unfavorable trend in key currency pairs, i.e. EUR/RUB and EUR/PLN at the beginning and at the end of the reporting period. The Selena Group 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 developed in 2017, Selena Group hedges its currency exposure by using multi-currency credit lines, in particular by entering into forward transactions, primarily in EUR/RUB and EUR/PLN.
In 2017, the Group ensured financing for Selena Vostok's operations with local loans totaling RUB 700 million. In addition, companies from Brazil, Italy, Turkey and Romania converted a part their short-term currency exposure, which in the following years will significantly reduce this exposure, neutralising the negative impact on the Group's financial result.

In 2017, Selena FM S.A. 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 and CZK/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 IAS 39. As at 31 September 2017, the Company had open FX options for EUR/RUB rate (RUB sales); EUR/PLN (EUR sales), CZK/PLN (CZK sales) and HUF/PLN (HUF sales); its gain on valuation of unrealised instruments was PLN 309 thousand (the result on these transactions is reported under "Derivative financial instruments"). After the balance sheet date, Selena FM S.A. had financial instruments in place relating to RON/PLN (RON 4.5 million), CZK/PLN (CZK 14.0 million), HUF/PLN (HUF 99.0 million) and EUR/RUB (EUR 1.75 million) with settlement dates in the period until 22 January 2019.

9. Income tax

9.1. Tax charge

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax:		
Current income tax charge	7,054	8,052
Corrections to the current income tax from previous years	-53	-32
Deferred income tax:		
Connected with origination and reversal of temporary differences	2,363	4,487
Tax disclosed in consolidated income statement	**9,364**	**12,507**

9.2. Reconciliation of the effective tax rate

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Profit (loss) before tax	**16,203**	**44,756**
Tax at the Polish statutory rate of 19%	**3,079**	**8,504**
Costs/(revenues) not included in the taxation basis	1,921	-947
Tax effect of the losses not included in the taxation basis	3,929	4,878
Corrections to the current income tax from previous years	-53	-32
Use of tax losses from previous years	-540	-1,649
Tax relief for research and development	-1,053	0
Use of the deferred asset relating to trademarks	2,093	1,723
Effect of other tax rates in foreign affiliates	-12	30
Tax at the effective tax rate	**9,364**	**12,507**
Effective tax rate	**58%**	**28%**

9.3. Losses not included in the deferred tax

Figures in PLN thousand	period of deducting losses from the moment of occurrence	Year ended 31 December 2017	Year ended 31 December 2016
Selena Romania SRL	7 years	1,866	3,818
Selena Bohemia s.r.o.	5 years	0	547
Selena CA L.L.P.	10 years	818	0
Selena Ukraine Ltd.	No term	981	0
Selena Italia srl	No term	42	494
Selena Bulgaria Ltd.	5 years	12	26
Weize (Shanghai) Trading Co., Ltd.	5 years	537	0
Selena Nantong Building Materials Co., Ltd.	5 years	4,270	8,596
POLYFOAM Yalitim Sanayi ve Tic Ltd.	5 years	2,214	2,797
Selena Iberia slu	No term	0	790
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	5 years	1,651	2,401
Selena Sulamericana Ltda	No term	1,878	2,460
TOO Big Elit	10 years	1,180	523
Selena Bohemia s.r.o.	7 years	0	80
Selena USA Specialty Inc.	20 years	0	28
EURO MGA Product SRL	7 years	573	171
Taurus Sp. z o.o.	5 years	13	9
Carina Sealants Sp. z o.o.	5 years	12	9
Oligo sp. z o.o.	5 years	19	0
TOO Selena Insulations	10 years	4,611	2,926
Total		**20,677**	**25,675**
Tax effect of unrecognised losses		**3,929**	**4,878**

9.4. Deferred income tax

	31 December 2017	Year ended 31 December 2017	31 December 2016	Year ended 31 December 2016
Deferred tax liability on positive temporary differences				
Net value of fixed assets under finance lease	668	-21	689	-29
Difference between the net book value and tax value of non-financial fixed assets	6,595	-116	6,711	-79
Interest not received	1,788	709	1,079	1,079
Valuation of trademarks	2,132	-464	2,596	-240
Unrealised FX gains	0	-1,229	1,229	344
Other	958	-106	1,373	594
Deferred tax liability	**12,142**	**-1,227**	**13,677**	**1,668**
Deferred tax assets on negative temporary differences				
Tax losses to be deducted	7,429	-941	6,488	4,929
Impairment charges for receivables	1,324	-42	1,282	-619
Provision for the cost of audit of financial statements	49	1	50	-19
Provision for the cost of unutilised leaves	567	47	614	-57
Retirement provision	144	-49	95	-13
Accruals	2,243	687	2,930	-2,028
Interest payable	33	52	85	-81

Liability in respect of unpaid remuneration	329	-27	302	-77
Impairment charge for inventory	624	-191	433	117
Tax relief for investments in the special economic zone	12,722	2,092	14,814	1,723
Deferred tax relating to margin elimination	2,854	255	3,109	-721
Unrealised FX losses	1,232	-1,232	0	0
Other	744	-518	853	756
Deferred tax assets	**30,295**	**134**	**31,055**	**3,911**
Change in deferred tax reflected in equity	**-**	**-3,456**	**-**	**1,092**
Change in deferred tax reflected in net profit	**-**	**2,363**		**4,487**

The table below presents a reconciliation of changes in deferred tax assets and liabilities in the balance sheet with the respective credits/charges recognised in the profit and loss account and other comprehensive income

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Credit/charge to the profit and loss account in respect of a deferred tax asset	134	3,911
Set-off of deferred tax assets and liabilities	1,459	403
FX differences arising on balance sheet valuation in foreign affiliates	628	-832
Balance sheet change in the deferred tax asset	**2,221**	**3,482**
Credit/charge to the profit and loss account in respect of a deferred tax liability	2,229	576
Deferred tax recognised in other comprehensive income	-3,456	1,092
Set-off of deferred tax assets and liabilities	-1,459	-403
FX differences arising on balance sheet valuation in foreign affiliates	-309	207
Balance sheet change in the deferred tax liability	**-2,995**	**1,472**

9.5. Activity in special economic zones

Orion PU Sp. z o.o has been operating in the Special Economic Zone (SEZ) of Wałbrzych under the permit of 27 May 1998. Under Article 6.1 of the Act on special economic zones of 6 October 2003, the company converted its permit for operations in the SEZ, by using the regulations pertaining to the tax exemptions specified in Article 5 of the Act in lieu of Article 12 of the Act on special economic zones of 20 October 1994, in the revision of 31 December 2000. Under the Act, the company uses the Special Economic Zone Fund, designed to support new investments in Poland until 2023. By the end of 2017, the company paid in a total of PLN 11,172.3k to the Fund. The company received subsidies totalling PLN 2,806.6 thousand to the technological projects involving changes in the technology of production of polyurethane foams.

Libra Sp. z.o.o. has been operating in the Special Economic Zone (SEZ) of Wałbrzych under the permit of 21 November 2000. On 29 May 2014, Libra sp. z o.o. obtained a new permit for conducting business in the Wałbrzych SEZ, expiring on 31 December 2025. According to the permit, if the company invests at least PLN 15m until the end of 2021, and increases employment by 10, a tax relief will be granted as 40% of the expenses incurred, but not more than PLN 9m. The company can use a tax relief until the end of 2025. By the end of 2017, the conditions of the new permit have not been met yet.

10. Profit per share

The basic profit per share is calculated by dividing the net profit for the period attributable to the ordinary shareholders by the weighted average number of outstanding ordinary shares during the period.

The table below shows a calculation of the profit (loss) per share in the reporting period.

	Year ended 31	Year ended 31 December

		December 2017	2016
Profit (loss) attributable to the controlling interests	PLN	6,819,649	32,030,366
Average number of ordinary shares	share	22,834,000	22,834,000
Profit/(loss) per ordinary share	**PLN/share**	**0.30**	**1.40**
Number of shares, including dilution	share	22,834,000	22,834,000
Diluted profit per share	**PLN/share**	**0.30**	**1.40**

As at 31 December 2017, Selena FM S.A. did not have any potentially dilutive ordinary shares.

11. Dividend paid and proposed

On 23 June 2017, 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 2016 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 1 August 2017. The shares of all series carry the same dividend rights. The dividend was paid on 16 August 2017.

12. Discontinued operations

In the period of ended 31 December 2017 or in the period ended 31 December 2016, the Group did not discontinue nor it plans to discontinue any type of business in the next year.

13. Property, plant and equipment

13.1. Changes in the value of tangible fixed assets

The tables below show changes in the individual groups of fixed assets.

Figures in PLN thousand	Land	Buildings and structures	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Initial value							
1 January 2017	**23,058**	**166,903**	**177,265**	**15,706**	**17,977**	**6,002**	**406,911**
increases, including:	87	2,682	16,528	1,531	1,673	10,322	**32,823**
Acquisition	*87*	*1,572*	*7,607*	*1,037*	*1,052*	*9,975*	***21,330***
Purchase of shares in a subsidiary	*0*	*1,110*	*8,686*	*345*	*546*	*0*	***10,687***
Other	*0*	*0*	*235*	*149*	*75*	*347*	***806***
Transfers from investments	0	958	5,884	722	160	-7,724	**0**
Decreases, including:	0	0	2,854	559	158	46	**3,617**
Sale, Liquidation	*0*	*0*	*2,789*	*410*	*137*	*39*	***3,375***
Other	*0*	*0*	*65*	*149*	*21*	*7*	***242***
FX diff. on translation of foreign subsidiary	-1,215	-7,673	-8,208	-686	-816	-73	**-18,671**
31 December 2017	**21,930**	**162,870**	**188,615**	**16,714**	**18,836**	**8,481**	**417,446**
Write-off							
1 January 2017	**0**	**41,647**	**100,457**	**10,028**	**12,750**	**0**	**164,882**
increases, including:	0	6,862	18,103	2,525	2,209	0	**29,699**
Depreciation for the period	*0*	*5,815*	*10,988*	*2,158*	*1,617*	*0*	***20,578***
Purchase of shares in a subsidiary	*0*	*1,047*	*7,110*	*262*	*509*	*0*	***8,928***
Other	*0*	*0*	*5*	*105*	*83*	*0*	***193***
Decreases, including:	0	0	397	271	160	0	**828**
Sale, Liquidation	*0*	*0*	*345*	*166*	*131*	*0*	***642***

Other	*0*	*0*	*52*	*105*	*29*	*0*	***186***
FX diff. on translation of foreign subsidiary	0	-1,323	-4,453	-481	-523	0	**-6,780**
31 December 2017	**0**	**47,186**	**113,710**	**11,801**	**14,276**	**0**	**186,973**
Impairment charges							
1 January 2017	**0**	**7,015**	**3,212**	**0**	**0**	**-1**	**10,226**
Increases	0	0	0	0	0	607	**607**
Decreases	0	0	4	0	0	27	**31**
FX diff. on translation of foreign subsidiary	0	-777	-377	0	0	0	**-1,154**
31 December 2017	**0**	**6,238**	**2,831**	**0**	**0**	**579**	**9,648**
Net value							
1 January 2017	**23,058**	**118,241**	**73,596**	**5,678**	**5,227**	**6,003**	**231,803**
31 December 2017	**21,930**	**109,446**	**72,074**	**4,913**	**4,560**	**7,902**	**220,825**

Figures in PLN thousand	**Land**	**Buildings and structures**	**Plant and machinery**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Initial value							
1 January 2016	**22,524**	**151,235**	**165,896**	**15,378**	**16,605**	**7,196**	**378,834**
increases, including:	0	605	1,977	2,698	1,613	18,581	**25,474**
Acquisition	*0*	*521*	*1,961*	*2,662*	*1,608*	*18,581*	***25,333***
Other	*0*	*84*	*16*	*36*	*5*	*0*	***141***
Transfers from investments	*0*	*12,934*	*6,749*	*43*	*53*	*-19,779*	**0**
Decreases, including:	*30*	*51*	*1,396*	*3,047*	*607*	*34*	**5,165**
Sale, Liquidation	*0*	*0*	*886*	*3,011*	*270*	*0*	***4,167***
Loss of control over subsidiary (Chemistry for Building s.r.o.)	*0*	*0*	*0*	*0*	*160*	*0*	***160***
Other	*30*	*51*	*510*	*36*	*177*	*34*	***838***
FX diff. on translation of foreign subsidiary	*564*	*2,180*	*4,039*	*634*	*313*	*38*	**7,768**
31 December 2016	**23,058**	**166,903**	**177,265**	**15,706**	**17,977**	**6,002**	**406,911**
Write-off							
1 January 2016	**0**	**35,828**	**88,448**	**10,351**	**11,225**	**0**	**145,852**
increases, including:	0	5,528	10,581	2,086	1,614	0	**19,809**
Depreciation for the period	*0*	*5,528*	*10,561*	*2,067*	*1,599*	*0*	***19,755***
Other	*0*	*0*	*20*	*19*	*15*	*0*	***54***
Decreases, including:	0	8	760	2,805	293	0	**3,866**
Sale, Liquidation	*0*	*3*	*637*	*2,772*	*122*	*0*	***3,534***
Loss of control over subsidiary (Chemistry for Building s.r.o.)	*0*	*0*	*0*	*0*	*160*	*0*	***160***
Other	*0*	*5*	*123*	*33*	*11*	*0*	***172***
FX diff. on translation of foreign subsidiary	*0*	*299*	*2,188*	*396*	*204*	*0*	**3,087**
31 December 2016	**0**	**41,647**	**100,457**	**10,028**	**12,750**	**0**	**164,882**
Impairment charges							
1 January 2016	**0**	**4,132**	**1,997**	**0**	**0**	**-1**	**6,128**
Increases	0	2,919	1,340	0	0	0	**4,259**
Decreases	0	47	119	0	0	0	**166**
FX diff. on translation of foreign subsidiary	0	11	-6	0	0	0	**5**
31 December 2016	**0**	**7,015**	**3,212**	**0**	**0**	**-1**	**10,226**
Net value							
1 January 2016	**22,524**	**111,275**	**75,451**	**5,027**	**5,380**	**7,197**	**226,854**
31 December 2016	**23,058**	**118,241**	**73,596**	**5,678**	**5,227**	**6,003**	**231,803**

13.2. Other disclosures relating to fixed assets

Figures in PLN thousand	31 December 2017	31 December 2016
Fixed assets used under a finance lease agreement	27,729	22,283
Fixed assets held as security for bank debt (mortgage)	83,226	92,329
Value of capitalised borrowing costs for the year	0	2

14. Intangible fixed assets

14.1. Changes in intangible assets

Figures in PLN thousand	Goodwill	Software	Trademarks	Other	Fixed assets under construction	Total
Initial value						
1 January 2017	**16,321**	**13,161**	**25,600**	**9,701**	**23,344**	**88,127**
increases, including:	5,418	939	337	271	2,663	**9,628**
Acquisition	*0*	*779*	*32*	*216*	*2,663*	***3,690***
Purchase of shares in a subsidiary	*5,418*	*158*	*305*	*55*	*0*	***5,936***
Other	*0*	*2*	*0*	*0*	*0*	***2***
Transfers from investments	0	16,515	0	2,718	-19,233	**0**
Decreases, including:	0	16	0	336	0	**352**
Sale, Liquidation	*0*	*6*	*0*	*116*	*0*	***122***
Loss of control over a subsidiary (Selena Sever Moscow)	*0*	*8*	*0*	*0*	*0*	***8***
Other	*0*	*2*	*0*	*220*	*0*	***222***
FX diff. on translation of foreign subsidiary	*-1,237*	*-485*	*-1,179*	*-468*	*-429*	**-3,798**
31 December 2017	**20,502**	**30,114**	**24,758**	**11,886**	**6,345**	**93,605**
Write-off						
1 January 2017	**0**	**9,650**	**13,348**	**3,513**	**0**	**26,511**
increases, including:	0	2,446	1,925	873	0	**5,244**
Depreciation for the period	*0*	*2,302*	*1,857*	*818*	*0*	***4,977***
Purchase of shares in a subsidiary	*0*	*142*	*68*	*55*	*0*	***265***
Other	*0*	*2*	*0*	*0*	*0*	***2***
Decreases, including:	0	16	0	115	0	**131**
Sale, Liquidation	*0*	*6*	*0*	*115*	*0*	***121***
Other	*0*	*2*	*0*	*0*	*0*	***2***
Loss of control over a subsidiary (Selena Sever Moscow)	*0*	*8*	*0*	*0*	*0*	***8***
FX diff. on translation of foreign subsidiary	*0*	*-251*	*-580*	*-121*	*0*	**-952**
31 December 2017	**0**	**11,829**	**14,693**	**4,150**	**0**	**30,672**
Impairment charges						
1 January 2017	**7,506**	**0**	**0**	**0**	**0**	**7,506**
Increases	*0*	*0*	*0*	*0*	*0*	**0**
Loss of control over subsidiary	*0*	*0*	*0*	*0*	*0*	***0***
FX diff. on translation of foreign subsidiary	*-48*	*0*	*0*	*0*	*0*	**-48**
31 December 2017	**7,458**	**0**	**0**	**0**	**0**	**7,458**

Net value						
1 January 2017	**8,815**	**3,511**	**12,252**	**6,188**	**23,344**	**54,110**
31 December 2017	**13,044**	**18,285**	**10,065**	**7,736**	**6,345**	**55,475**

Figures in PLN thousand	Goodwill	Software	Trademarks	Other	Fixed assets under construction	Total
Initial value						
1 January 2016	**15,298**	**12,501**	**24,513**	**9,473**	**17,682**	**79,467**
increases, including:	0	473	207	730	5,254	**6,664**
Acquisition	*0*	*473*	*207*	*700*	*5,254*	***6,634***
Other	*0*	*0*	*0*	*30*	*0*	***30***
Transfers from investments	*0*	*0*	*0*	*0*	*0*	**0**
Decreases, including:	0	25	0	658	0	**683**
Sale, Liquidation	*0*	*2*	*0*	*1*	*0*	***3***
Loss of control over subsidiary (Chemistry for Building s.r.o.)	*0*	*0*	*0*	*657*	*0*	***657***
Other	*0*	*23*	*0*	*0*	*0*	***23***
FX diff. on translation of foreign subsidiary	*1,023*	*212*	*880*	*156*	*408*	**2,679**
31 December 2016	**16,321**	**13,161**	**25,600**	**9,701**	**23,344**	**88,127**
Write-off						
1 January 2016	**0**	**8,488**	**11,107**	**3,297**	**0**	**22,892**
increases, including:	0	1,089	1,811	729	0	**3,629**
Depreciation for the period	*0*	*1,089*	*1,811*	*729*	*0*	***3,629***
Other	*0*	*0*	*0*	*0*	*0*	***0***
Decreases, including:	0	20	0	540	0	**560**
Sale, Liquidation	*0*	*2*	*0*	*0*	*0*	***2***
Other	*0*	*18*	*0*	*0*	*0*	***18***
Loss of control over subsidiary (Chemistry for Building s.r.o.)	*0*	*0*	*0*	*540*	*0*	***540***
FX diff. on translation of foreign subsidiary	*0*	*93*	*430*	*27*	*0*	**550**
31 December 2016	**0**	**9,650**	**13,348**	**3,513**	**0**	**26,511**
Impairment charges						
1 January 2016	**7,397**	**4**	**0**	**113**	**0**	**7,514**
Increases	*0*	*0*	*0*	*0*	*0*	**0**
Loss of control over subsidiary (Chemistry for Building s.r.o.)	*0*	*0*	*0*	*-116*	*0*	***-116***
Other decreases	*0*	*5*	*0*	*0*	*0*	***5***
FX diff. on translation of foreign subsidiary	*109*	*1*	*0*	*3*	*0*	**113**
31 December 2016	**7,506**	**0**	**0**	**0**	**0**	**7,506**
Net value						
1 January 2016	**7,901**	**4,009**	**13,406**	**6,063**	**17,682**	**49,061**
31 December 2016	**8,815**	**3,511**	**12,252**	**6,188**	**23,344**	**54,110**

14.2. Goodwill

The table below shows the goodwill recognised in the balance sheet that arose as a result of acquisition of Group companies.

Figures in PLN thousand	31 December 2017	31 December 2016
Uniflex	5,283	0
Oligo	18	0
Tytan EOS	874	874
Vostok	1,557	1,753
Matizol	715	715
Big Elit	4,597	5,473
Total	**13,044**	**8,815**

The table below shows changes in the goodwill occurring during the year.

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Goodwill arising on consolidation at the beginning of the period	**8,815**	**7,901**
Acquisition of control over Uniflex S.p.A	5,400	0
Acquisition of control over Oligo Sp. z o.o.	18	0
FX differences arising on goodwill translation	-1,189	914
Total carrying amount at the end of the period	**13,044**	**8,815**

On 29 March 2017, control was assumed over Uniflex S.p.A. As a result of the settlement of the acquisition, goodwill of PLN 5,400 thousand was recognised. Details are presented in Note 1.7.

14.3. R&D expenditure

The table below shows the expenditures incurred on R&D activity.

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
R&D expenditure reflected in the profit and loss account	11,244	10,810

15. Other fixed assets

In June 2009, Selena Nantong Building Materials Co., Ltd. (subsidiary) entered into a 50-year operating leasehold agreement for land. The capitalised future leasehold payments are presented under “Other fixed assets”.

The payments are depreciated on a straight-line basis during the term of the lease. This method of depreciation reflects consumption of the economic benefits of the asset.

16. Impairment of fixed assets

16.1. Goodwill

As required by IAS 36 – Impairment, as at 31 December 2017, the goodwill disclosed in the consolidated report (Note 14.2) was tested for impairment. Based on an analysis of the models of future cash flows planned for 2016-2020 for the cash generating units (CGUs) corresponding to the specified companies, no need for a goodwill impairment was identified. Due to materiality, Note 16.4 presents the assumptions regarding an impairment test for the goodwill arising from acquisition of Uniflex S.p.A and Big Elit.

16.2. Selena Nantong Building Materials Co., Ltd.

Due to the lower-than-planned utilisation of the plant's production capacity in the previous reporting periods, and the slower-than-planned increase in the sales of Selena Nantong Building Materials Co., Ltd as well as revision of its business plans, as at 30 June 2017, the Management Board of the Parent Company carried out an impairment test for the entity's fixed assets, in accordance with IAS 36 "Impairment". 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 Building Materials Co., Ltd. In the previous reporting periods, impairment allowances of PLN 4,937 and PLN 4,259 thousand were posted for the value of buildings, structures and equipment in 2013 and 2016, respectively.

As at 31 December 2017, the impairment test was repeated. Based on the projections of future cash flows generated by Selena Nantong Building Materials Co., Ltd. in the 7-year projection period, a recoverable amount of the fixed assets invested in the company was determined. The test did not reveal any need for additional impairment allowances.

Given the long-term nature of the investment, the test was based on a 7-year cash flow forecast. For the purpose of the test, WACC before tax was taken at 13.9% 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 impairment charge in the unconsolidated report of Selena FM S.A. in respect of the value of the assets invested in Selena Nantong Building Materials. Details of the charge were presented in Note 17.3 of the 2017 annual financial statements of Selena FM S.A.

16.3. Selena Romania srl and EURO MGA Product srl

As the Romanian company failed to achieve the expected sales levels in H1 2017, 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). Based on the projected future cash flows generated by the companies, the recoverable value of their fixed assets was determined, and no need was identified to create an impairment charge for the company's assets.

As at 31 December 2017, the impairment test was repeated. Based on the projected future cash flows generated in the Romanian market over the 5-year projection period, the recoverable value of assets invested in the company was determined, and no need was identified to create an impairment charge for the companies' assets presented in these consolidated financial statements.

The test used a 5-year cash flow projection: For the purpose of the test, WACC before tax was taken at 14.1% 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. If any material, negative deviations occur from the adopted market development plan it might be necessary to post an impairment write-down on the assets invested in Selena Romania srl and EURO MGA Product srl in future reporting periods.

The unconsolidated report of Selena FM S.A. contains an impairment write-down for the shares of and long-term loans to Selena Romania srl and EURO MGA Product srl, for their full respective values.

16.4. Assumptions of impairment tests and sensitivity of the cash flow models

Selected model assumptions for the tests are shown in the table below.

CGU	Uniflex	Big Elit	Selena Nantong	Selena Romania + EURO MGA
Assets tested	goodwill	goodwill	non-current assets	non-current assets
WACC before tax	12.7%	21.0%	13.9%	14.1%
Residual growth rate	2.5%	2.5%	2.5%	2.5%
Impairment	none	none	none	none
Model sensitivity - impairment amount at:				
WACC before tax increased by 1 p.p.	*no charge*	*no charge*	*no charge*	*no charge*
residual growth rate reduced by 1 p.p.	*no charge*	*no charge*	*no charge*	*no charge*
EBIT margin reduced by 1 p.p.	*no charge*	*no charge*	*no charge*	*407*

17. Investments accounted for using the equity method

As at 31 December 2017, Selena Group has one entity accounted for using the equity method: Hamil – Selena Co. Ltd. of Kimhae (South Korea), manufacturer of polyurethane foams and aerosols, and House Selena Trading Company Ltd (China), a distributor of Selena Nantong's products in China.

Value of the shares is presented in the table below.

Entity	Year acquired	Group's share in equity	Share value at the acquisition date	Net value of the shareholding as at: 31 December 2017	31 December 2016
Hamil - Selena Co. Ltd	2001	30%	1,317	5,713	6,226
House Selena Trading Company Ltd.	2017	40%	110	107	0
Oligo Sp. z o.o.	2016	24%	7		7
Net value of shares				**5,820**	**6,233**

Key data on Hamil – Selena Co. Ltd.:

Figures in PLN thousand	Year ended 31 December 2017	Period ended 31 December 2016
Revenue from sales	93,157	72,683
Profit/loss after tax	7,557	5,429
Assets	51,353	41,095
Liabilities	11,579	4,950

*Financial data for Hamil-Selena Co. Ltd. for the year ended 31 December 2017 were not audited until the date of publication.

In 2017, Selena S.A., which is the owner of shares in the associated undertaking Hamil - Selena Co. Ltd., acquired the right to dividend from the company of EUR 114.7 thousand in respect of the 2016 profit. The dividend was paid on 28 April 2017.

The key figures of House Selena Trading Company Ltd. are presented in the table below.

Figures in PLN thousand	Year ended 31 December 2017
Revenue from sales	4,005
Profit/loss after tax	-793
Assets	1,439
Liabilities	2,203

18. Other financial assets

The table below shows a specification of the balance of other financial assets.

Figures in PLN thousand	31 December 2017		31 December 2016	
	Long-term	Short-term	Long-term	Short-term
Bonds	0	0	0	60,396
Shares in PDR Recycling GmbH (indirectly through Orion PU Sp. z o.o.)	619	0	619	0
Cheques	0	4,717	0	4,031
Other financial assets	852	356	1,008	224
TOTAL	**1,471**	**5,073**	**1,627**	**64,651**

In January 2017, Universal Energy Sp. z o.o. repurchased PLN 350 thousand worth of bonds. Universal Energy Sp. z o.o. is, in accordance with IAS 24, a party related with Selena FM S.A through Mr Krzysztof Domarecki, Supervisory Board Chairman of Selena FM S.A.

On 25 July 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds purchased by Selena FM S.A. The earlier redemption related to the bonds with a total value of PLN 20 million.

On 26 December 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds purchased by Selena FM S.A. The earlier redemption related to the bonds with a total value of PLN 23 million.

On 29 December 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds purchased by Selena FM S.A. The earlier redemption related to the bonds with a total value of PLN 17 million.

As at the balance sheet date, AD Niva Sp. z o.o. redeemed all the bonds it had issued and which had been taken up by the Company.

AD Niva sp. z o.o. has 51.29% votes at the General Meeting of Selena FM S.A. Mr Krzysztof Domarecki, Chairman of Supervisory Board of Selena FM S.A., is the sole shareholder of Syrius Investments S.a.r.l., which is the sole shareholder of AD Niva sp. z o.o.

19. Inventories

Figures in PLN thousand	31 December 2017	31 December 2016
Materials	75,243	44,569
Work in progress	3,612	1,129
Finished goods	96,448	81,953
Merchandise	17,737	17,193
Total inventory, net	**193,040**	**144,844**
Impairment charge for inventory	4,623	4,664
Total inventory, gross	**197,663**	**149,508**

Changes in the impairment charge for inventories are presented in the table below.

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Impairment charge for inventory at the beginning of the period	**4,664**	**4,043**
Creation of an impairment charge for inventory	1,777	2,034
Reversal of an impairment charge for inventory	-646	-368
Utilisation of an impairment charge for inventory	-1,043	-1,129
FX differences arising on translation	-129	84
Impairment charge for inventory at the end of the period	**4,623**	**4,664**

20. Trade receivables

20.1. Age structure of trade receivables

The age structure of trade receivables not subject to impairment charges is presented in the table below.

			Overdue, not covered by impairment charges (days in arrears):				
Figures in PLN thousand	**Total**	**Up-to-date**	**< 30**	**31 – 60**	**61 – 90**	**91 – 180**	**>180**
31 December 2017	206,435	179,322	20,842	3,534	1,625	1,052	60
31 December 2016	181,630	158,594	16,130	5,235	1,479	192	0

20.2. Impairment charge for trade and other receivables

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Impairment charge at the beginning of the period	**38,555**	**28,364**
Created	2,943	10,925
Reversed	-658	-102
Utilised	-1,820	-1,997
Purchase of shares in a subsidiary	1,170	0
Loss of control over Chemistry for Building s.r.o.	0	-121
Other	0	0
FX differences arising on translation	-4,184	1,486
Impairment charge at the end of the period	**36,006**	**38,555**
including:		
Impairment charge for trade receivables	30,875	32,615
Impairment charge for other receivables	5,131	5,940

21. Other short-term receivables

Specification of other short-term receivables is presented in the table below.

Figures in PLN thousand	31 December 2017	31 December 2016
VAT claimed	29,107	11,281
Prepayments for deliveries	3,933	5,359

Prepaid expenses	3,826	3,538
Other	3,771	5,197
Total	**40,637**	**25,375**

The increase in VAT claimed results from the level of VAT settlements in Selena FM S.A. As at 31 December 2017, the receivables were stated at PLN 21,440 thousand. PLN (VAT settlements relating to October, November and December 2017, which had not been settled with the Tax Office as at the balance sheet date) vs. receivables of PLN 3,801 thousand as at 31 December 2016 (settlements relating to December 2016).

22. Cash and cash equivalents

Cash in bank carries variable rates of interest. Short-term deposits are opened for different periods (up to 3 months), and carry different interest rates.

As at 31 December 2017, the Group's companies had unutilised credit lines of PLN 168.8 million. As at 31 December 2016: PLN 78.9 million.

The high value of cash on bank accounts is connected with the separate presentation in the consolidated financial statements of settlements between the Polish members of Selena Group under cash-pool agreements (umbrella loan agreements).

The table below shows a structure of the cash balances at the balance sheet date.

Figures in PLN thousand	31 December 2017	31 December 2016
Cash in bank	46,598	47,426
Cash on hand	266	490
Cheques (up to 3 months)	4,611	2,920
Short-term deposits	1,422	3,868
Cash in transit	24	0
Total	**52,921**	**54,704**

23. Equity

23.1. Registered capital

23.1.1. Nominal value per share

The structure of the Parent Company's registered capital is presented in the table below

Series	Type	Nominal value of a 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.

23.1.2. 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.

23.1.3. Major shareholders

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

Shareholder	Share types	Number of shares acquired	Share in registered capital	Number of votes	Share in votes at the AGM
AD Niva Sp. z o.o. *	Registered preference shares	4,000,000	17.52%	8,000,000	29.81%
	Bearer shares	5,763,000	25.24%	5,763,000	21.48%
Syrius Investments S.a.r.l.*	Bearer shares	8,050,000	35.25%	8,050,000	30.00%

** entity controlled by Krzysztof Domarecki, Supervisory Board Chairman*

23.2. Other reserves

The items of reserves are presented in the table below.

Figures in PLN thousand	Value
Fair value of the warrants allocated as part of the incentive programme	1,633
Reserve capital earmarked for the purchase of own shares	8,000
Other reserves	**9,633**

23.3. Non-controlling interests

The table below shows changes in non-controlling interests.

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
As at 1 January	**553**	**332**
a) increase	20	221
-profit for the financial year	*20*	*219*
- FX differences on translation of a foreign affiliate	*0*	*2*
b) decrease	83	0
- loss for the financial year	*0*	*0*
- FX differences on translation of a foreign affiliate	*59*	*0*
- cancellation of shares (Orion PU Sp. z o.o.)	*24*	*0*
As at 31 December	**490**	**553**

23.4. FX differences arising on translation of a foreign affiliate

Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
FX differences arising on translation of foreign affiliates	10,963	-104
FX differences on measurement of investments into the net assets of a foreign subsidiary	-25,789	6,158
Income tax	3,456	-1,092
Total	**-11,370**	**4,962**

Figures in PLN thousand	31 December 2017	31 December 2016
FX differences arising on translation of foreign affiliates	6,568	-4,454
FX differences on measurement of investments into the net assets of a foreign subsidiary	-36,520	-10,730
Income tax	1,467	-1,990
Total	**-28,485**	**-17,174**

The item "FX differences arising from measurement of investments into net assets of a foreign affiliate" includes the elements of the intragroup transactions (loans granted by Selena FM S.A. to its subsidiaries and the amounts payable by these entities), which is the opinion of the Management Board are classified as an element of investments into the net assets of these companies. The settlements are eliminated from the consolidation, but the FX differences arising on their valuation, presented in the unconsolidated accounts of the individual companies, are removed from finance revenues (or expenses as the case might be) at the consolidated level and are presented in the statement of comprehensive income.

24. Loans and advances

24.1. Bank credit agreements

The incurred bank loans are presented in the table below

			31 December 2017		31 December 2016	
Ref	**Loan type**	**Maturity date**	**31 December 2015** ***Short-term portion***	***Long-term portion*** **Maturity date**	***Long-term portion*** ***Short-term portion***	***Long-term portion*** ***Short-term portion***
1	Working capital loan	07/2018	0	33,902	51,469	0
2	Working capital loan	07/2018	0	26,686	25,401	0
3	Working capital loan	01/2017	0	0	0	10,536
4	Working capital loan	12/2018	0	47,635	55,861	0
5	Investment loan	03/2018	0	411	440	1,759
6	Working capital loan	09/2019	9,428	0	19,805	0
7	Working capital loan	06/2018	0	18,260	0	0
8	Working capital loan	01/2019	0	3,844	0	0
9	Other	Different	3,286	8,677	5,754	7,065
			12,714	**139,415**	**158,730**	**19,360**

* LT portion of the loan agreements for which the consolidated covenants were not met at the balance sheet date (see Note 28.3)

24.2. 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 1 October 2013, 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, setting a total credit limit of PLN 70 million. The loan matures on 12 July 2018. It bears a variable rate of interest: 1M WIBOR/EURIBOR/LIBOR + margin. The debt is secured by a mortgage on a property owned by Orion PU sp. z o.o., assignment of the receivables of Selena S.A., a power of attorney to the borrowers' current accounts and a blank bill of exchange.

2) Multi-product agreement of 22 February 2011 (with an annex of 8 July 2016) for Selena FM S.A. and subsidiaries Carina Silicones sp. z o.o. and Orion PU sp. z o.o. The agreement provides for a total credit limit of PLN 70 million. The loan matures on 6 July 2018. 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 of Carina Silicones Sp. z o.o. and Tytan EOS Sp. z o.o., Orion PU Sp. z o.o., Libra Sp. z o.o. and Selena S.A. together with assignment of insurance policies for the above properties and civil law guarantees of Tytan EOS Sp. z o.o. and Libra Sp. z o.o. The companies also issued blank promissory notes to the bank, alongside promissory note declarations.

3) Multi-product line agreement of 25 January 2013 for Selena FM S.A. and Orion PU Sp. z o.o. The loan amount is EUR 7.35 million, but in November and December of each of the agreement's life the limit will be temporarily reduced to an amount being an equivalent of EUR 2.45 million, and in January it will be reinstated to the full amount.
The interest rate is variable (WIBOR/EURIBOR/LIBOR, depending on the currency + margin). The facility is secured on a property owned by Orion PU Sp. z o.o. and blank bills of exchange of the borrowers. The loan will be repaid in January 2017.

4) Multipurpose agreement of 26 November 2013 for Selena FM and subsidiaries Selena S.A., Tytan EOS sp. z o.o. and Izolacja–Matizol Sp. z o.o.. with subsequent annexes; the loan amount is PLN 65 million and the maturity date is 22 February 2018. 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, 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. On 30 November 2017 an annex was signed extending the repayment date to 31 December 2018 and increasing the credit limit from PLN 65 million to PLN 70 million.

5) On 12 March 2014, a non-renewable loan agreement of PLN 7m was signed with Libra sp. z.o.o. The loan value is PLN 7m and it matures on 12 March 2018. It is secured by an open mortgage up to PLN 10.5m on a property owned by Libra sp. z o.o., assignment of policy rights, a guarantee of Selena S.A. and a guarantee of Selena FM S.A. The loan bears a variable interest rate based on 1M WIBOR/ 1M EURIBOR + margin. The loan was repaid in full in March 2018.

6) 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 oo, IZOLACJA-MATIZOL Sp. z o.o. The credit amount is PLN 50 million for all Borrowers. The maturity date is September 2019. 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 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, civil law guarantee of Selena S.A., and transfer of trade receivables due from third parties to Orion PU Sp. z o.o. and Carina Silicones Sp. z o.o., Libra Sp. z o.o., together with assignment of insurance policies for the above receivables.

7) On 9 June 2017, the subsidiary Selena Vostok entered into a working capital line agreement. The availability of the bank's credit line is 12 months. A credit limit up to RUB 300 million. Variable interest rate depending on the rate of the Russian Central Bank. The granted credit limit will be used to finance the company's working capital requirements. It is secured by a corporate guarantee of Selena FM S.A.

8) On 27 July 2017, the subsidiary Selena Vostok entered into a working capital line agreement. The available line is RUB 400 million. Variable interest rate depending on the rate of the Russian Central Bank. The credit line was granted for 18 months. It is secured by a corporate guarantee of Selena FM S.A. The guarantee came into force on 12 October 2017.

9) Loans for different purposes incurred by the Group's foreign affiliates (including: Selena Iberia: PLN 8.93m), in different currencies and with different maturities.

Events occurring after the balance sheet date

In March 2018, loan No. 5 from the summary above was repaid.

24.3. Currency and interest rate risk relating to the bank debt

The table below shows details of the interest rates on loans and loan currencies.

Currency	Interest rate	Base rate	(figures in PLN thousand)	31 December 2017	31 December 2016
PLN	variable	WIBOR		92,727	117,907
EUR	variable	EURIBOR		29,897	47,548
	fixed	-		5,841	9,152
RUB	variable	Different		22,104	0
Other	Different	Different		1,560	3,483
Total				**152,129**	**178,090**

24.4. Loan agreement terms

As part of the loan agreements signed by the Parent 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 2017, Selena Group maintained the consolidated financial ratios at the levels required by the lenders.

24.5. Security for the bank debt

The table below shows a collective summary of the main assets held as security for bank debt.

Security type	Security value (data in PLNm)
Fixed assets (mortgage/pledge)	83.2
Inventories	82.0
Trade receivables from non-related parties	57.2

In addition to the presented security items, other securities are used, including:

- a declared current account turnover
- a corporate guarantee of another Selena Group company
- intercompany receivables
- blank bill of exchange.

25. 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.

Figures in PLN thousand	Bank loans	Leases	Other financial liabilities	Total
Debt as at 1 January 2017	**178,090**	**11,797**	**0**	**189,887**
Changes resulting from cash flows, including:	-31,153	-5,464	0	-36,617
financing received	*91,138*	*0*	*0*	*91,138*
repayment of principal	*-115,234*	*-5,106*	*0*	*-120,340*
interest and fees paid	*-7,057*	*-358*	*0*	*-7,415*
other	*0*	*0*	*0*	*0*
Non-cash changes, including:	5,192	7,059	5,708	17,959
lease agreements signed	*0*	*7,244*	*0*	*7,244*
interest and fees accrued	*7,220*	*358*	*0*	*7,578*
FX differences	*-3,546*	*-543*	*0*	*-4,089*

change in respect of purchase of an entity	*1,518*	*0*	*450*	*1,968*
other	*0*	*0*	*5,258*	*5,258*
Debt balance as at 31 December 2017	**152,129**	**13,392**	**5,708**	**171,229**

26. Other financial liabilities

The table below presents other financial liabilities.

	31 December 2017		31 December 2016	
Figures in PLN thousand	Long-term	Short-term	Long-term	Short-term
Finance lease liabilities	8,462	4,930	7,590	4,207
Obligations in respect of bills settlement	0	9,599	0	9,508
Other financial liabilities	5,708	0	0	0
Total financial liabilities	**14,170**	**14,529**	**7,590**	**13,715**

The item “Other financial liabilities” relates to the valuation of the option of purchase of minority interests (applies to shares held by Uniflex S.p.A. by minority shareholders) and the valuation of deferred payments for the minority shareholders of Uniflex S.p.A. Settlement of the acquisition is presented in Note 1.7.

27. Other liabilities

The table below shows a specification of other financial obligations as at the balance sheet date.

	31 December 2017		31 December 2016	
Figures in PLN thousand	Long-term	Short-term	Long-term	Short-term
Investment liabilities	107	1,481	0	1,137
Prepayments for deliveries	0	4,625	0	1,100
VAT payable	0	7,240	0	5,414
Other taxes and insurance payable	0	8,503	0	6,110
Remuneration payable	0	13,119	0	12,459
Other liabilities	2,821	3,419	2,071	3,122
Deferred income	1,819	4,494	2,519	1,186
Total other liabilities	**4,747**	**42,881**	**4,590**	**30,528**

28. Provisions

The table below shows changes in the balance of provisions.

	Period ended 31 December 2017			Period ended 31 December 2016		
Figures in PLN thousand	Provision for retirement benefits	Other provisions	Total	Provision for retirement benefits	Other provisions	Total
Long term						
Balance at the beginning of the period	**491**	**2**	**493**	**429**	**2**	**431**
Provisions raised	469	14	483	216	0	216
Provisions released	-163	0	-163	-137	0	-137
Provisions used	0	0	0	-17	0	-17

Purchase of shares in a subsidiary	2,038	84	2,122	0	0	0
FX differences	-42	4	-38	0	0	0
Balance at the end of the period	**2,793**	**104**	**2,897**	**491**	**2**	**493**
Short term						
Balance at the beginning of the period	**8**	**15,350**	**15,358**	**2**	**3,823**	**3,825**
Provisions raised	15	2,004	2,019	12	12,177	12,189
Provisions released	-6	-818	-824	0	-545	-545
Provisions used	-12	-6,232	-6,244	-6	-531	-537
Purchase of shares in a subsidiary	0	1,804	1,804	0	0	0
FX differences	0	-617	-617	0	426	426
Balance at the end of the period	**5**	**11,491**	**11,496**	**8**	**15,350**	**15,358**

29. Contingent liabilities

29.1. Intragroup guarantees

Group companies provide cross-guarantees to each other in connections with jointly incurred bank debt, and as part of commercial transactions. These are intragroup transactions, and the guarantee applies to loan obligations and trade liabilities owed to unrelated entities, which are presented in these consolidated statement of financial position. This is why the obligations on account of such intragroup guarantees are not presented in the consolidated accounts. Such guarantees given to the subsidiaries by Selena FM S.A. were described in detail in Note 29.1 of the unconsolidated financial statements of Selena FM S.A. for 2017.

29.2. Contingent assets and liabilities under the agreement for the acquisition of Selena Iberia

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 the Selena Group 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 (a symmetrical approach without an impact on the Group's results). 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.

The maximum nominal value of contingent liabilities not included in the settlement is EUR 1.29 million as at the balance sheet date.

29.3. Litigations

<u>Dispute between Carina Silicones sp. z o.o. and Bank Millennium S.A.</u>

On 27 March 2009, Carina Silicones sp. z o.o. (previously Carina Sealants Sp. z o.o. SKA) filed a suit with the Regional Court in Wrocław, X Commercial Division, against Bank Millennium S.A. of Warsaw to repudiate the FX options agreement of 8 July 2008. The case was referred to resolution to the Regional Court in Warsaw.

The bank presented to the court an estimated obligation of PLN 6.9m in respect of settlement of the FX transactions. On 27 February 2015, the Regional Court in Warsaw passed a judgement on the strength of which the court of first instance dismissed the claim. The Company appealed. On 8 September 2016, the Court of Appeal in Warsaw passed a judgement concerning the claim filed by Carina Silicones Sp. z o.o. against Bank Millennium S.A. and upheld the decision of the District Court in Warsaw of 27 February 2015.

On 11 March 2013, Carina Silicones received from the District Court in Warsaw, XVI Economic Division, a copy of the claim for payment made by Millennium Bank, dated 4 January 2013. The bank stated its total claim amount at PLN 10,256k. The claim relates to the purported conclusion of FX transactions between the company and the bank in 2008. Repeating the opinion of the Management Board of Carina Silicones, supported with legal opinions, the Management Board of the Parent sustains its opinion that the bank's claims are unwarranted. Based on the legal opinion received, the company responded to the claim and moved that it should be dismissed in its entirety, proposing the proceedings to be suspended until determination of the fact of existence of the contested transaction. On 11 May 2013, the District Court in Warsaw, accepted the request of Carina Silicones and decided to suspend the proceedings.

At the request of Bank Millennium, the Regional Court in Warsaw resumed the proceedings. During the first hearing on 14 March 2017, the attorney of Bank Millenium filed a motion to refer the case to mediation. The court decided to defer its decision regarding the motion. As at the date of preparation of the consolidated report, the Regional Court continues examine evidence for the case. The company expects that the decision of the court of first instance should be taken in 2018. The company has a legal opinion which shows that the claim for payment is very likely to be successful.

<u>Administrative proceedings between Selena S.A. and the Customers Office</u>

Selena S.A. is a party to customs proceedings relating to the imposition by the customs authorities of anti-dumping duty on the company in connection with the import of open-mesh fabrics of glass fibres from Taiwan. The goods were imported in e.g. 2011-2012. At that time, no anti-dumping duty was in effect that would relate to the imports of certain types of fibreglass mesh fabrics forwarded from Taiwan. The anti-dumping duty on this mesh was introduced on 25 May 2012, on the basis of Regulation No. 437/2012 of 23 May 2012 in conjunction with Regulation No. 21/2013 of 10 January 2013.

On 24 February 2014, the Head of the Customs Office in Gdynia initiated the first proceedings against Selena S.A. concerning determination of anti-dumping customs duty on the imports of the open-mesh fabrics from Taiwan. On 27 May 2014, the Head of the Customs Office in Gdańsk initiated further 27 proceedings to determine the amount of the anti-dumping duty for the same goods. The basis for initiation of the procedure by the Polish customs authorities was the receipt of a report drafted by the European Anti-Fraud Office (OLAF) on the investigation carried out by OLAF in Taiwan in 2013 concerning the suspected circumvention of the anti-dumping duty imposed on the imports of open-mesh fabrics.

At present, there are 32 proceedings pending, in which anti-dumping duties of PLN 7,992.9k in total were imposed on the Company in the first instance. The decisions taken by the courts of the first instance to impose the anti-dumping duty are solely based on the OLAF's report on the completed investigation, and actually, fact sheets sent by the Taiwanese authorities (tables appended to the to OLAF's report), whose quality and content cause the Company to have reasonable doubt, a fact that has been consistently brought to the court's attention. Where an authority of the second instance adopts an unfavourable decision, a complaint can be lodged with the Supreme Administrative Court.

Until 15 December 2016, the outcomes of the proceedings before administrative courts were favourable for the Company. The first unfavourable court ruling in customs matters was issued on 15 December 2016, after another examination of the above cases. The court dismissed the complaints made by Selena S.A., but did not refer to the inconsistent data arising from the OLAF report or the supplementary correspondence with OLAF. The above unfavourable ruling relating to the three complaints filed with the Provincial Administrative Court against the decision of the Head of Customs Chamber, increased the risk of a negative outcome of the dispute, so a decision was made to raise a provision for this purpose. The Company does not agree with the court decisions and on 20 and 22 February lodged appeals to the Supreme Administrative Court.

On 27 September 2017, the court of the second instance, after considering the case, issued decisions upholding the decisions of the court of the first instance. In respect of the 15 decisions issued, the Company paid customs duety of PLN 4.4 million plus interest in a total amount of PLN 0.2 million.

In late October/early November, complaints were lodged with the Provincial Administrative Court in Gdansk in further 15 cases, previously pending before the court of the second instance. The Provincial Administrative Court upheld the contested decisions. The judgments are not final and binding. The company disagrees with the judgments and plans to lodge cassation appeals to the Supreme Administrative Court. The duty resulting from all the 15 decisions has been paid.

A provision was raised for the amount of potential future customs obligations. The provision was posted in the 2016 costs and was partly used in 2017.

29.4. 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 in Poland and in certain CEE countries, legal provisions in these countries 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 and in certain CEE countries is substantially higher than in the countries with a more mature tax system.

30. Leases

30.1. Finance lease liabilities – Group as a lessee

The Group leases machines, equipment and vehicles under finance leases.

The future minimum lease payments and the present value of the minimum lease payments are presented in the table below.

	31 December 2017		31 December 2016	
Figures in PLN thousand	**Nominal value**	**Current value**	**Nominal value**	**Current value**
Payments up to 1 year	5,179	4,930	4,367	4,207
Payments from 1 to 5 years	8,728	8,462	7,738	7,590
Payments above 5 years	0	0	0	0
Total lease payments	**13,907**	**13,392**	**12,105**	**11,797**
Less financial expenses	-515		-308	
Current value of minimum lease payments	**13,392**	**13,392**	**11,797**	**11,797**

Terms of the material leases:

- production facility of Selena Iberia:
  - lease term - 15 years
  - amortisation period - depending on the component; max. 40 years for the building structure
  - variable interest rate
  - after expiry of the lease term, the ownership of the assets passes to the entity
- Vehicles
  - 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.

30.2. Operating lease liabilities – Group as a lessee

The Group uses office and storage space under operating leases. The future minimum lease payments under such leases are presented in the table below.

Figures in PLN thousand	31 December 2017	31 December 2016
During the year	7,872	6,073
1-5 years	16,715	16,231
Total	**24,587**	**22,304**

Material terms of the operating leases are as follows:

- leased signed for a specified period (usually 5 years) with a renewal option subject to agreement of the terms of further cooperation or agreements signed for 12 months or an indefinite period with an extension option;
- a cash deposit of 2x monthly rent is retained throughout the lease term;
- adaptation works are permitted to prepare the space for the tenant's needs
- the payment includes a fixed rent amount and a flat service charge + utility costs and cost of other services (e.g. small repairs, maintenance)
- the operating leases do not impose any restrictions on dividend payouts, additional debt or additional leases.

The lease payments recognised as costs amounted to PLN 6,688 thousand for 2017, and PLN 5,983 thousand for 2016.

30.3. Operating lease receivables – Group as a lessor

The Group leases out office space under operating leases. The lease agreements are for an indefinite term.

The future receivables in respect of minimum lease payments arising from the irrevocable operating leases are presented in the table below.

Figures in PLN thousand	31 December 2017	31 December 2016
During the year	38	40
1-5 years	0	0
Total	**38**	**40**

The lease payments recognised as revenues for the period amounted to PLN 38 thousand for 2017, and PLN 39 thousand for 2016.

31. Reasons for the difference between balance sheet changes of selected balance sheet times and changes arising from the statement of cash flows

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

Receivables:	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Balance sheet change in receivables	**-45,912**	**-1,845**
Change in income tax receivable	5,850	-789
Change in investment receivables and prepayments for investments	-2,014	-3,052
Acquisition of control over a subsidiary (Uniflex and Oligo)	12,846	0
total balance of receivables	*13,376*	*0*
income tax receivables	*-530*	*0*
Cheques received in settlement of a debt	-2,630	-559
FX differences arising on translation of foreign affiliates	-16,382	13,339
Elimination of changes in the balance on receivables on account of loss of control over Chemistry for Building s.r.o.	0	-1
Elimination of increases in the balance of receivables due to subsidy received	60	-629
Change in the balance of receivables in the statement of cash flows	**-48,182**	**6,464**

Inventories:	Year ended 31 December 2017	Year ended 31 December 2016
Balance sheet change in inventories	**-48,196**	**-27,870**
Acquisition of control over a subsidiary (Uniflex and Oligo)	4,738	0
FX differences arising on translation of foreign affiliates	-13,737	8,456
Change in the balance of inventories in the statement of cash flows	**-57,195**	**-19,414**

Liabilities:	Year ended 31 December 2017	Year ended 31 December 2016
Balance sheet change in liabilities	**34,970**	**4,572**
Change in the balance of loans	25,961	16,580
Change in the balance of finance lease obligations	-1,595	2,747
Change in the balance of income tax obligations	1,418	-1,658
Change in the balance of investment obligations	-683	62
Acquisition of control over a subsidiary (Uniflex and Oligo), including:	-16,189	0
total balance of liabilities	*-17,907*	*0*
obligations in respect of borrowings	*1,513*	*0*
obligations in respect of income tax	*205*	*0*
Elimination of changes in the balance of unearned revenues on account of government subsidy	-2,593	-429
FX differences arising on translation of a foreign affiliate and other	7,209	-2,794
Change in the balance of liabilities in the statement of cash flows	**48,498**	**19,080**

Other in operating activities	Year ended 31 December 2017	Year ended 31 December 2016
Receipt of proceeds from subsidies to core business	3,878	1,615
Outflows from FX transactions (Selena FM)	958	-1,157
Total other	**4,836**	**458**

Other in investing activities	Year ended 31 December 2017	Year ended 31 December 2016
Impact of receivables from the sale of Chemistry for Building s.r.o.	5	0
Return of interest-bearing bank pledge	250	0
Elimination of changes in the balance of cash due to loss of control over Chemistry for Building s.r.o.	0	-44
Total other	**255**	**-44**

Other in financing activities	Year ended 31 December 2017	Year ended 31 December 2016
Inflow of funds from subsidies for investment expenditure	354	188
Cancellation of shares by the subsidiary (Orion PU Sp. z o.o.)	-24	0
Total other	**330**	**188**

32. Information on related parties

The table below shows transactions with directors of the Parent and with associates. The sales and purchases figures cover the period of 12 months ended 31 December (2017 and 2016, respectively), while the receivables and liabilities are presented as at 31 December 2017 and 31 December 2016.

	Figures in PLN thousand	Period	Sale	Purchase	Other revenues[1)]	Receivables	Liabilities	Other assets
Owners	AD Niva Sp. z o.o. (indirectly Krzysztof Domarecki)	2017	8	0	3,371	1	0	2,446
		2016	8	0	4,020	0	0	60,000
	AD Niva Sp. z o.o. SKA (Krzysztof Domarecki)	2017	2	0	0	0	0	0
		2016	2	0	0	0	0	0
	Syrius Investment (Krzysztof Domarecki)	2017	0	0	0	0	0	0
		2016	0	0	0	0	0	0
Associates and JV	Hamil - Selena Co Ltd.	2017	4,917	36	0	1,215	0	0
		2016	4,130	42	0	618	11	0
	House Selena Trading Company Ltd.	2017	3,857	0	0	135	0	0
		2016	0	0	0	0	0	0
Supervisory Board Members	Krzysztof Domarecki (CONSILE)	2017	0	684	0	0	65	0
		2016	0	679	0	0	65	0
	Universal Energy Sp. z o.o. (Krzysztof Domarecki)	2017	4,447	0	-4	2,446	0	0
		2016	522	49	25	101	0	396
Members of the Management Board	Jean-Noël Fourel	2017	0	332	0	0	0	0
		2016	0	88	0	0	0	0
	Marcin Macewicz	2017	0	0	0	50	0	0
		2016	0	0	0	0	0	0
	Hubert Rozpędek	2017	0	420	0	0	43	0
		2016	0	102	0	0	43	0
	Agata Gładysz-Stańczyk (AG Consulting)	2017	0	440	0	0	54	0
		2016	0	0	0	0	0	0
	Krzysztof Kluza *	2017	0	0	0	0	0	0
		2016	0	350	0	0	0	0
	Andrzej Feruga (MERITUM) **	2017	0	0	0	0	0	0
		2016	0	420	0	0	0	0
TOTAL		**2017**	**13,231**	**1,912**	**3,367**	**3,847**	**162**	**2,446**
		2016	**4,662**	**1,730**	**4,045**	**719**	**119**	**60,396**

[1)] includes revenues from interest on bonds
** value of sales and purchases until the VP stepped down from office on 28 July 2016*
** value of sales and purchases until the Management Board member was recalled from office on 31 December 2016*

Note 11 contains information on the dividend approved and paid in 2017.

33. Emoluments of directors

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

MANAGEMENT BOARD Figures in PLN thousand	Year ended 31 December 2017	Year ended 31 December 2016
Short-term employment benefits, including bonuses (remuneration and deductions)	2,124	2,168
Jean-Noël Fourel	1,160	388
Hubert Rozpędek	240	64
Marcin Macewicz	270	302
Agata Gładysz-Stańczyk	150	0
Artur Ryglowski	221	0
Jarosław Michniuk	0	1,021
Krzysztof Kluza	0	192
Andrzej Feruga	83	201

Retirement benefits	0	0
Termination benefits	0	0
Total	**2,124**	**2,168**

SUPERVISORY BOARD	**Figures in PLN thousand**	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Short-term employment benefits, including bonuses (remuneration and deductions)		309	238
Krzysztof Domarecki		86	74
Andrzej Krämer		33	19
Borysław Czyżak		46	57
Stanisław Knaflewski		34	38
Sylwia Sysko-Romańczuk		34	23
Marlena Łubieszko-Siewruk		18	0
Jacek Olszański		18	0
Mariusz Warych		12	0
Hans Kongsted		14	19
Francisco Azcona		14	8
Retirement benefits		0	0
Termination benefits		0	0
Total		**309**	**238**

Management Board members receive fixed and variable (bonus-based) remuneration. A decision on bonus payment for 2017 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 2017 (Note 11), in accordance with the number of shares held (Note 23.1.3).

34. Auditor's fee

The table below shows the fee payable to the auditor of the Company's 2017 and 2016 financial statements. The 2017 and 2016 accounts were audited by Deloitte Polska Sp. z o.o. Sp.k.

Figures in PLN thousand	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Audit of the annual financial statements	145	85
Review of the interim financial statements	55	55
Total	**200**	**140**

On 25 May 2016, the Supervisory Board of Selena FM S.A. resolved to appoint Deloitte Polska 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 2016 and 2017. The audit agreement was concluded on 6 July 2016.

35. Goals and rules of financial risk management

When analysing the goals and rules of financial risk management in the Group, the Management Board considers the following factors:

- Specific nature of the sector and its typical transactions and connection with the Group's external environment
- Location of the individual entities and the resulting operating, financial, business, legal and tax implications
- Distribution of operating and management roles between the Group companies

- Planned growth of the Group companies and the related demand for capital
- The Group's micro and macroeconomic environment.

On the basis of the analysis of these factors, the Management Board considers the following financial risks:

- FX risk
- Credit risk
- Liquidity risk
- Interest rate risk
- Other (specific risks).

35.1. FX risk

For the purpose of risk analysis, FX risk is defined as a risk of volatility of the future cash flows denominated in other currencies than the Group's functional currency as a result of FX fluctuations. In the case of the Group, the risk arises from the fact that a major portion of the transactions is conducted beyond Poland and settled in other currencies that the functional currency. In consequence, the FX fluctuations affect the cash flows, expressed in the functional currency, generated by the Group companies (both on the income and cost side) and the open balance sheet positions (net assets) expressed in foreign currency.

The table below shows the major exposures of the Group in foreign currency (euro, rouble, lea, tenge, Turkish lira). The exposure includes the assets and liabilities denominated in euro, rouble, lea, tenge and Turkish lira, which are not excluded from consolidation. The table below shows the hypothetical impact on the net value of these items expressed in zloty as if at the end of the year the currency rates depreciated/ appreciated to the level shown in the table (the rate sensitivity tests are based on their actual fluctuations in 2015-2017)

	31 December 2017					31 December 2016				
Exposure currency	**euro**	**rouble**	**Romanian leu**	**tenge**	**Turkish lira**	**euro**	**rouble**	**Romanian leu**	**tenge**	**Turkish lira**
	PLN k	**PLN k**	**PLN k**	**PLN k**	**PLN k**	**PLN k**	**PLN k**	**PLN k**	**PLN k**	**PLN k**
Trade receivables	91,893	32,730	6,245	3,849	7,019	72,283	27,725	10,352	5,480	4,943
Cash	17,890	2,716	4,541	3,038	4,948	14,722	5,056	3,134	10,721	291
Other assets	3,440	3,433	224	4,068	5,143	3,460	2,858	670	4,932	5,590
	113,223	**38,879**	**11,010**	**10,955**	**17,110**	**90,465**	**35,639**	**14,156**	**21,133**	**10,824**
Trade liabilities	114,552	902	603	2,303	1,800	73,155	1,012	1,486	3,047	1,726
Bank loans	35,738	22,104	0	0	1,381	56,701	0	0	0	174
Other financial liabilities	24,866	0	0	0	0	18,794	0	0	0	0
Other liabilities	10,773	3,968	2,288	1,297	2,333	8,923	2,642	335	1,439	2,063
	185,929	**26,974**	**2,891**	**3,600**	**5,514**	**157,573**	**3,654**	**1,821**	**4,486**	**3,963**
Net exposure	**-72,706**	**11,905**	**8,119**	**7,355**	**11,596**	**-67,108**	**31,985**	**12,335**	**16,647**	**6,861**
impact of rate changes at the following rates:										
EUR/PLN: 4.0349 / RUB/PLN: 0.0520 / RON/PLN: 0,8616 / KZT/PLN: 0.0102 / TRY/PLN: 1.0473	2,371	-1,660	-306	-1,456	-1,362	2,185	-8,450	-437	-2,903	-727
EUR/PLN: 4.3243 / RUB/PLN: 0.0705 / RON/PLN: 0.9259 / KZT/PLN: 0.0146 / TRY/PLN: 1.3314	-2,674	1,981	277	1,100	1,414	-2,336	5,352	337	2,466	648

The Group uses selected financial instruments to hedge the value of future cash flows denominated in foreign currencies and the net asset value of its foreign operations. The Selena Group 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 developed in 2017, Selena Group hedges its currency exposure by using multi-currency credit lines, in particular by entering into forward transactions, primarily in EUR/RUB and EUR/PLN.

35.2. Interest rate risk

For the purpose of risk analysis, interest rate risk is defined as a risk of fluctuations in the fair value of the future cash flows as a result of changes in the market interest rates. In the case of the Group the risk applies mainly to the bank and other loans, leases and interest-earning financial assets held by the Group companies (mainly cash).

A summary of the contractual maturities of the open interest-bearing positions on which interest is received or paid is presented in the table below.

31 December 2017	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total
Fixed interest rate					
Finance lease obligations	0	0	0	0	**0**
Bank loans	2,985	2,856	0	0	**5,841**
Other loans received	64	115	0	4	**183**
Loans granted	90	0	0	0	**90**
Bank deposits	1,422	0	0	0	**1,422**
Variable interest rate					
Finance lease obligations	4,930	8,462	0	0	**13,392**
Bank loans	108,634	9,428	0	0	**118,062**
Other loans received	27,732	311	0	0	**28,043**
Loans granted	408	45	0	0	**453**
Cash in bank	46,598	0	0	0	**46,598**

31 December 2016	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total
Fixed interest rate					
Finance lease obligations	22	54	0	0	**76**
Bank loans	947	0	0	0	**947**
Other loans received	4,281	621	4,529	0	9,431
Loans granted	0	71	0	0	**71**
Bank deposits	3,868	0	0	0	3,868
Variable interest rate					
Finance lease obligations	4,185	7,536	0	0	**11,721**
Bank loans	12,295	152,976	0	0	**165,271**
Other loans received	1,837	604	0	0	**2,441**
Loans granted	554	0	0	0	**554**
Cash in bank	47,426	0	0	0	**47,426**

The potential impact of the market interest rates changes on the financial result generated by the financial instruments with a variable yield is presented in the table below. The calculation assumes an exposure to a particular interest rate at a fixed value as at 31 December 2017 (and 31 December 2016). The table includes only the currencies and instruments for which the Group's exposure to fixed-rate instruments is significant.

	2017		**2016**	
figures in PLN thousand	**PLN**	**EUR**	**PLN**	**EUR**
Cash	4,948	17,890	9,242	14,722
Bank loans received	-92,727	-29,897	-117,907	-47,548
Net exposure	**-87,779**	**-12,007**	**-108,665**	**-32,826**
Impact * of an increase ** in interest rate*** by 1 pp	-878	-120	-1,087	-328

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

The deposits opened by the Group companies are short-term in nature, therefore they reflect the current market conditions, but they also increase the risk of stability of future cash flows from interest.

As a rule, the Group does not use hedging instruments to protect itself from changes in the market interest rates.

35.3. Credit risk

Due the nature and size of its business, the Group's credit risk is subject to regular analysis for all the trading companies forming part of the Group. The Group enters into trading transactions with the companies that demonstrate a strong credit worthiness. The customers who are allowed trade credit are vetted depending on the nature and extent of the relationship. As a result, each client has an individually calculated credit limit and payment terms. Group companies regularly monitor the value and age structure of receivables and take collection measures to mitigate credit risk. Furthermore, selected companies of the Group entered into an agreement Atradius Credit Insurance N.V.S.A. to insure their trade receivables.

Information on the age structure of trade receivables and their impairment charges is presented in Note 20 of this report.

Cash is deposited with financial institutions in the form of short-term deposits. Credit risk associated with cash is low in the Management Board's opinion.

The Group's maximum exposure to credit risk at the end of the reporting period approximates the full amount of the receivables from trade contracts, loans granted, cash and other receivables, without taking account of the fair value of any collateral received.

Details on the assets held as security for loans are provided in Note 24.5. The risk that no cash flows will be obtained from the indicated asset items is considered as low. In the situation of an increased credit risk, the Group is protected by asset impairment charges, which are reflected in the carrying amounts of the assets.

35.4. Liquidity risk

The Group's Management Board seeks to maintain a balance between continuity and flexibility of financing. To this end, different funding sources are used, including investment loans, overdrafts and finance leases.

As part of its role of central coordination of the Group's finance management and to ensure ongoing financing and liquidity for the subsidiaries, Selena FM S.A. originates loans to or purchases the bonds issued by the subsidiaries (the effect of such transactions is eliminated from the Group's consolidated accounts). Details of such transactions are presented in the unconsolidated financial statements of the Parent Company for 2017.

The table below shows the Group's obligations as at the balance sheet date as per maturity dates, based on the contractual discounted payment schedules.

31 December 2017 (PLN k)	On demand	Below 3 months	3 to 12 months	< 1 year 5 years	Above 5 years	Total
Interest bearing borrowings	2,204	49,658	87,553	12,710	4	**152,129**
Finance lease obligations	0	1,226	3,704	8,462	0	**13,392**
Trade liabilities	26,505	120,830	4,680	0	0	**152,015**
Other liabilities*	3,331	12,488	28,312	8,529	107	**52,767**
	32,040	**184,202**	**124,249**	**29,701**	**111**	**370,303**

*the item does not include amounts connected with prepayment for deliveries or deferred revenue

31 December 2016 (PLNk)	On demand	Below 3 months	3 to 12 months	< 1 year 5 years	Above 5 years	Total
Interest bearing borrowings	0	6,143	13,217	158,730	0	**178,090**
Finance lease obligations	1	1,007	3,199	7,590	0	**11,797**
Trade liabilities	12,063	89,955	7,552	0	0	**109,570**
Other liabilities*	1,731	18,489	19,718	2,071	0	**42,009**
	13,795	**115,594**	**43,686**	**168,391**	**0**	**341,466**

*the item does not include amounts connected with prepayment for deliveries or deferred revenue

35.5. Other risks

The Group has an extensive co-operation with customers from the Eastern markets (Russia, Ukraine, Kazakhstan). The executive boards of the Group companies are aware of the risks pertaining to the Eastern markets (FX, credit, legal, tax and political risk). In 2015 and 2014, some of the above risks materialised. For this reason, the Management Board introduced a new model of sales management and a partial hedging of FX transactions to mitigate the above risks. The Group has implemented the Currency Risk Management Policy, which particularly provides for entering into forward contracts, especially for the currency pairs EUR/RUB and EUR/PLN. Additionally, in 2017, the Group provided financing for Selena Vostok's activities using local loans as part of its currency risk management.

Furthermore, a material portion of the Group's operating costs are the cost of commodities, including those purchased in foreign markets. Commodity prices are characterised by volatility and reflect fluctuations in the global economy and oftentimes are linked to changing oil prices. The growing commodity prices press on distributors' margins and bring demand down. On the other hand, decreasing prices may point to a dwindling demand and a beginning of a downturn. Stable growth and stable commodity prices positively affect the Group's business, ensuring more accurate projections of performance, while fluctuations in demand and an increase in commodity prices have a negative bearing on the Group's profitability.

In the process of managing the Group's operations and taking strategic decisions which also have an impact on tax settlements, the Group companies are exposed to tax risks. These risks are described in Note 1.11 to the consolidated Management Board's report for 2017.

36. Financial instruments

36.1. Fair value of the individual classes of financial instruments

Figures in PLN thousand	Category as per IAS 39	31 December 2017 Book value	31 December 2016 Book value
Financial assets			
Other long-term receivables (1)	PiN	365	370
Loans granted	PiN	45	71
Bonds	PiN	0	60,396
Forward transactions	WwWGpWF	309	10
Other long term financial assets	DDS	1,471	1,627
Other short-term financial assets	PiN	5,073	4,255
Trade receivables	PiN	206,435	181,630
Other short-term receivables (1)	PiN	2,087	1,872
Cash and cash equivalents	WwWGpWF	52,921	54,704
Financial liabilities			
Bank and other loans, including:			
- fixed rate loans	PZFwgZK	6,024	10,378
- variable rate loans	PZFwgZK	146,105	167,712
Finance lease obligations	-	13,392	11,797
Other financial liabilities	PZFwgZK	9,599	9,508
Trade liabilities	PZFwgZK	152,015	109,570
Other liabilities (2)	PZFwgZK	20,947	18,789

Terms used:
WwWGpWF - Financial assets / liabilities measured at fair value through profit or loss
PiN - Loans and receivables
PZFwgZK - Other liabilities measured at amortised cost
DDS - Financial assets available for sale
1) The amount does not include payments due to tax/social security office, advance payments made and prepayments

2) The amount does not include payments due to tax/social security office, advance payments made and accrued revenues.

Fair value of financial instruments that the Group held as at 31 December 2017 and 31 December 2016 was not materially different from the values presented in the financial statements for the respective years: with regard to short-term instruments the potential effect of discount is not material, and the instruments relate to the transactions concluded on market terms.

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

Year ended 31 December 2017	Note	WwWGpWF	PiN	PZFwgZK	Total	Finance lease
Interest income/expense	9	125	3,473	-6,985	**-3,387**	-372
FX gains (losses)	9	418	-23,425	-1,163	**-24,170**	0
Creation of impairment charges	8	0	-2,943	0	**-2,943**	0
Reversal of impairment charges	8	0	657	0	**657**	0
Gains/losses on fair valuation*	9	299	0	0	**299**	0
Gains/losses on the exercise of financial instruments		958	0	0	**958**	0
Total net gain/loss		**1,800**	**-22,238**	**-8,148**	**-28,586**	**-372**

*valuation of currency contracts

Year ended 31 December 2016		WwWGpWF	PiN	PZFwgZK	Total	Finance lease
Interest income/expense	9	131	4,095	-6,552	**-2,326**	-329
FX gains (losses)	9	-457	5,492	10,079	**15,114**	0
Creation of impairment charges	8	0	-10,925	0	**-10,925**	0
Reversal of impairment charges	8	0	102	0	**102**	0
Gains/losses on fair valuation*	9	-140	0	0	**-140**	0
Gains/losses on the exercise of financial instruments		-1,157	0	0	**-1,157**	0
Total net gain/loss		**-1,623**	**-1,236**	**3,527**	**668**	**-329**

*valuation of currency contracts

36.3. Hedging

The Company does not use hedge accounting.

37. Equity management and net debt

The key goal of the Group's capital management is to maintain good credit rating and safe capital ratios to facilitate the Group's operations and increase value for shareholders.

The Company manages its capital structure, and modifies it in response to the current needs and changes to the economic conditions. To maintain or change the capital structure, the Company may used the following instruments:

- payment of dividend to shareholders
- issue of new stock
- loan taking or repayment.

As part of capital management, the Management Board monitors the debt level by means of the gearing ratio, which is calculated as net debt to total equity + net debt. Net debt includes interest-bearing loans and other interest-bearing financial liabilities, decreased by cash and cash equivalents. Equity includes the equity attributable to the shareholders of the Parent.

Figures in PLN thousand	31 December 2017	31 December 2016
Interest bearing borrowings	152,129	178,090
Other financial liabilities	28,699	21,305
Less cash and cash equivalents	-52,921	-54,704
Net debt	**127,907**	**144,691**
Equity attributed to the shareholders of the parent	422,235	433,576
Equity and net debt	**550,142**	**578,267**
Gearing (net debt / equity + net debt)	**23%**	**25%**

38. Group structure

The average annual employment in the Group is presented in the table below.

	Year ended 31 December 2017	Year ended 31 December 2016
Administration	146	145
Sales Department	763	766
Production Division	669	608
Others	192	191
Total	**1,770**	**1,710**

39. Events occurring after the balance sheet date

After the balance sheet date and until the approval of these consolidated 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 maintenance of books of account

....
Agnieszka Rumczyk

Acting Management Board President

....
Marcin Macewicz

Vice-President of the Management responsible for finance

....
Hubert Rozpędek

Vice-President of the Management Board

....
Agata Gładysz-Stańczyk

Management Board Member

....
Artur Ryglowski