Consolidated financial statements for the year ended 31 December 2020

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Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

Figures in PLN thousand	Note	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Continued operations			
Revenue from the sale of products		1,273,264	1,231,035
Revenue from the sale of goods and raw materials		109,229	93,313
Revenue from the sale of services		2,242	2,138
Revenue from contracts with customers	3	**1,384,735**	**1,326,486**
Cost of sales	4.1	916,672	928,940
Gross profit on sales		**468,063**	**397,546**
Selling and marketing costs	4.1	228,752	216,852
General and administrative expenses	4.1	114,059	108,007
Other operating income	4.2	13,913	6,257
Other operating costs	4.2	8,865	8,140
Impairment of non-financial fixed assets	4.2	1,587	4,313
Impairment of financial assets	4.2	1,537	2,929
Operating profit		**127,176**	**63,562**
Financial income	4.3	7,399	5,625
Financial costs	4.3	40,755	12,745
Share in net profit/loss of the associate		1,473	470
Profit before tax		**95,293**	**56,912**
Income tax	5	18,945	17,232
Net profit for the financial year		**76,348**	**39,680**
Net profit attributable to:			
– shareholders of the parent		76,236	39,499
– non-controlling interests		112	181
Earnings per share attributable to the shareholders of the parent		**(PLN/share)**	**(PLN/share)**
– basic		3.34	1.73
– diluted		3.34	1.73

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Profit after tax	**76,348**	**39,680**
Other comprehensive income not subject to reclassification to profit or loss	**0**	**0**
FX differences arising on translation of the foreign associate	-7,113	3,331
FX differences on measurement of investments in the net assets of the foreign associate	-3,575	-2,512
Income tax	-1,032	-504
Other comprehensive income subject to reclassification to profit or loss:	**-11,720**	**315**
Other comprehensive income for the period, after tax	**-11,720**	**315**
Total comprehensive income	**64,628**	**39,995**
Attributable to:		
– shareholders of the parent	64,477	39,819
– non-controlling interests	151	176

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Figures in PLN thousand	Note	As at 31.12.2020	As at 31.12.2019
ASSETS			
Property, plant and equipment	6.2.1; 6.2.2	243,303	235,620
Intangible assets	6.2.3	48,888	52,492
Investments accounted for using the equity method	6.2.6	6,174	5,954
Deferred tax assets	5	23,817	20,867
Other long-term non-financial assets	6.2.4	7,523	7,337
Other long-term financial assets	6.1	43,096	1,322
Total non-current assets		**372,801**	**323,592**
Inventories	6.2.7	192,670	150,185
Other short-term non-financial assets	6.2.8	36,393	39,106
Trade receivables	6.1.1	251,907	237,892
CIT claimed		4,661	4,228
Other short-term financial assets	6.1	12,545	8,087
Cash and cash equivalents	6.1.2	55,004	85,653
Total current assets		**553,180**	**525,151**
TOTAL ASSETS		**925,981**	**848,743**
LIABILITIES AND EQUITY			
Registered capital	6.3.1	1,142	1,142
FX differences arising on translation of the foreign associate	6.3.4	-43,155	-31,396
Supplementary capital		659,758	608,648
Other reserves	6.3.2	9,633	9,633
Retained profit/ loss carried forward		-104,586	-129,712
Equity attributable to the shareholders of the parent		**522,792**	**458,315**
Non-controlling interests	6.3.3	872	727
Total equity		**523,664**	**459,042**
Long-term portion of bank and other loans	6.1.3	14,107	69,515
Long term lease liabilities	6.1.5	19,062	23,479
Other long term financial liabilities		115	109
Deferred tax liability	5	3,784	3,843
Other long term non-financial liabilities	6.2.10	1,411	1,598
Long-term portion	6.2.9	8,438	4,690
Non-current liabilities		**46,917**	**103,234**
Trade liabilities		187,337	143,986
Obligations to return remuneration		24,151	19,556
Short-term portion of bank and other loans	6.3.1	35,645	34,392
Short-term lease liabilities	6.1.5	13,392	14,250
Other short term financial liabilities	6.1	4,862	16,841
CIT tax payable		15,688	8,324
Other short term non-financial liabilities	6.2.10	50,767	43,910
Short-term provisions	6.2.9	23,558	5,208
Current liabilities		**355,400**	**286,467**
Total liabilities		**402,317**	**389,701**
TOTAL LIABILITIES AND EQUITY		**925,981**	**848,743**

CONSOLIDATED STATEMENT OF CASH FLOWS

Figures in PLN thousand	Note	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Cash flows from operating activities			
Profit (loss) before tax		**95,293**	**56,912**
Share in the result of the entities accounted for using the equity method		-1,473	-470
Depreciation/ amortisation		38,515	38,265
FX gains (losses)		-11,832	-740
Interest and dividends		3,159	5,432
Profit/ (loss) on investing activities		2,167	3,055
Change in the balance of receivables	8.3	-18,580	-22,428
Change in the balance of inventories	8.3	-42,484	30,806
Change in the balance of liabilities	8.3	40,536	35,080
Change in the balance of provisions		22,098	286
CIT paid		-16,193	-10,298
Other	8.3	1,088	44
Net cash flows from operating activities		**112,294**	**135,944**
Cash flows from investing activities			
Purchase of property, plant and equipment, and intangible assets		-33,200	-26,279
Inflows from sale of tangible and intangible assets		852	1,049
Outflow on account of loans granted		-42,000	0
Purchase of shares in a subsidiary		0	-3,973
Dividends and interest received		1,494	628
Repayments of loans granted		0	445
Other	8.3	0	106
Net cash flows from investing activities		**-72,854**	**-28,024**
Cash flows from financing activities			
Inflows from bank/ other loans received	6.1.4	37,358	85,995
Repayment of bank and other loans	6.1.4	-90,830	-127,952
Repayment of lease liabilities	6.1.4	-14,398	-14,151
Dividends paid to owners		-6	-6,856
Interest paid	6.1.4	-2,866	-4,938
Other	8.3	347	130
Net cash flows from financing activities		**-70,395**	**-67,772**
Net change in cash and cash equivalents		**-30,955**	**40,148**
Change in cash and cash equivalents, including:		-30,649	40,152
Net FX differences		307	4
Cash and cash equivalents at the beginning of the period*		85,653	45,501
Cash and cash equivalents at the end of the period*		55,005	85,653

*including restricted cash:

as at 31 December 2020: PLN 0.05m

as at 31 December 2019: PLN 0.05m

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

Figures in PLN thousand	Equity attributable to the shareholders of the parent							Equity 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	Retained profit/ (loss carried forward): from the current period	Total equity		
As at 1 January 2020	1,142	608,648	-31,396	9,633	-129,712	0	458,315	727	459,042
Profit for the financial year	0	0	0	0	0	76,236	76,236	112	76,348
Other net comprehensive income for the period	0	0	-11,759	0	0	0	-11,759	39	-11,720
Total comprehensive income for the period	**0**	**0**	**-11,759**	**0**	**0**	**76,236**	**64,477**	**151**	**64,628**
Transfer of profit to the supplementary capital	0	51,110	0	0	-51,110	0	0	0	0
Dividend	0	0	0	0	0	0	0	-6	-6
As at 31 December 2020	**1,142**	**659,758**	**-43,155**	**9,633**	**-180,822**	**76,236**	**522,792**	**872**	**523,664**

FOR THE YEAR ENDED 31 DECEMBER 2019

Figures in PLN thousand	Equity attributable to the shareholders of the parent							Equity 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	Retained profit/ (loss carried forward): from the current period	Total equity		
As at 1 January 2019	1,142	577,016	-31,716	9,633	-130,729	0	425,346	557	425,903
Profit for the financial year	0	0	0	0	0	39,499	39,499	181	39,680
Other net comprehensive income for the period	0	0	320	0	0	0	320	-5	315
Total comprehensive income for the period	**0**	**0**	**320**	**0**	**0**	**39,499**	**39,819**	**176**	**39,995**
Transfer of profit to the supplementary capital	0	31,632	0	0	-31,632	0	0	0	0
Dividend	0	0	0	0	-6,850	0	-6,850	-6	-6,856
As at 31 December 2019	**1,142**	**608,648**	**-31,396**	**9,633**	**-169,211**	**39,499**	**458,315**	**727**	**459,042**

General information

1. General information

1.1 Characteristics of the Parent Company

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 of the Parent Company 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 and to the domestic market;
- providing subsidiaries with advice on strategic management, finance management, sales strategy as well as bookkeeping services.

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

Management Board of the Parent Company

As at 31 December 2019, the Parent Company's Management Board was composed of:

- Krzysztof Domarecki – Chief Executive Officer, President;
- Dariusz Ciesielski – Chief Commercial Officer, Vice President;
- Christian Dölle – Chief Marketing Officer, Vice President;
- Jacek Michalak – Chief Financial Officer.

Changes in the Management Board in 2020:

On 14 May 2020, the Parent Company's Supervisory Board adopted a resolution appointing Marek Tomanek to the Parent Company's Management Board as Chief Operating Officer (COO). The appointment became effective as of 25 May 2020.

On 30 November 2020, Dariusz Ciesielski resigned from the Parent Company's Management Board and from the role of the Vice President for Sales effective from 31 December 2020.
On 30 November 2020, the Parent Company's Supervisory Board adopted a resolution appointing, as of 1 January 2021 Sławomir Majchrowski to the Company's Supervisory Board, entrusting him with the role of Chief Commercial Office and Vice President of the Management Board.

As at 31 December 2020, the Parent Company's Management Board was composed of:

- Krzysztof Domarecki – Chief Executive Officer, President;
- Dariusz Ciesielski – Chief Commercial Officer, Vice President;
- Christian Dölle – Chief Marketing Officer, Vice President;
- Jacek Michalak – Chief Financial Officer;
- Marek Tomanek – Chief Operating Officer;

As at 1 January 2021, the Company's Management Board was composed of:

- Krzysztof Domarecki – Chief Executive Officer, President;
- Christian Dölle – Chief Marketing Officer, Vice President;
- Sławomir Majchrowski – Chief Commercial Officer, Vice President;
- Jacek Michalak – Chief Financial Officer;
- Marek Tomanek – Chief Operating Officer;

On 16 February 2021, Krzysztof Domarecki resigned from the Parent Company's Management Board and from the role of CEO effective from 1 March 2021.

On 16 February 2021, the Parent Company's Supervisory Board adopted a resolution appointing Jacek Michalak to the Parent Company's Management Board as Chief Executive Officer. The appointment became effective as of 1 March 2021.

Since 1 March 2021, the Parent Company's Management Board has consisted of:

- Jacek Michalak – CEO;
- Christian Dölle – Chief Marketing Officer, Vice President;
- Sławomir Majchrowski – Chief Commercial Officer, Vice President;
- Marek Tomanek – Chief Operating Officer.

On 19 April 2021, Marek Tomanek resigned from the Parent Company's Management Board and from the role of the COO effective from 30 April 2021.

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

Supervisory Board of the Parent Company

As at 31 December 2019, the Company's Supervisory Board was composed of:

- Andrzej Krämer – Chairman of the Supervisory Board;
- Borysław Czyżak – independent Supervisory Board Member;
- Czesław Domarecki – Supervisory Board Member;
- Łukasz Dziekan – Supervisory Board Member;
- Marlena Łubieszko-Siewruk – independent Supervisory Board Member;
- Mariusz Warych – independent Supervisory Board Member.

In the period from 1 January 2020 to the date of publication of this report, there were no changes in the composition of the Supervisory Board.

Audit Committee, Strategy and Innovation Committee, Nominations and Remuneration Committee

As at 31 December 2019, the Audit Committee was composed of:

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

Changes in the Audit Committee composition in 2020:

Since 14 May 2020, the Audit Committee has consisted of:

- Mariusz Warych – Chairman of the Audit Committee;
- Borysław Czyżak – Audit Committee Member;
- Marlena Łubieszko-Siewruk – Audit Committee Member.

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

As at 31 December 2019, the Strategy and Innovation Committee was composed of:

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

In the period from 1 January 2020 to the date of publication of this report, there were no changes in the composition of the Strategy and Innovation Committee.

As at 31 December 2019, the Nominations and Remuneration Committee was composed of:

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

In the period from 1 January 2020 to the date of publication of this report, there were no changes in the composition of the Nominations and Remuneration Committee.

1.2 Information about the financial statements

Data covered by the financial statements

These financial statements are consolidated financial statements of Selena Group. They cover the period of 12 months ended 31 December 2020 and data as at that date.

The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity cover the data for the 12 months ended 31 December 2020 as well as comparative data for the period of 12 months ended 31 December 2019.

The consolidated statement of financial position covers the data presented as at 31 December 2020, and comparative data as at 31 December 2019.

Approval of the financial statements

These financial statements were approved for publication by the Parent Company's Management Board on 22 April 2021.

SELENA GLOBAL EXPERIENCE

Measurement and reporting currency

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

At the balance sheet date, i.e. 31 December 2020 and 31 December 2019, 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. 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 in the period from January to December of 2020 and 2019, respectively.

The rates used for measurement of balance sheet items and the average rates for the individual reporting periods are presented in the table below.

Ccy	As at 31.12.2020	As at 31.12.2019	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
1 USD	3.7584	3.7977	3.9045	3.8440
1 EUR	4.6148	4.2585	4.4742	4.3018
100 HUF	1.2638	1.2885	1.2636	1.3198
1 UAH	0.1326	0.1602	0.1439	0.1502
1 CZK	0.1753	0.1676	0.1687	0.1676
1 RUB	0.0501	0.0611	0.0535	0.0596
1 BRL	0.7236	0.9448	0.7543	0.9746
1 BGN	2.3595	2.1773	2.2876	2.1995
1 CNY	0.5744	0.5455	0.5664	0.5571
100 KRW	0.3456	0.3291	0.3314	0.3301
1 RON	0.9479	0.8901	0.9239	0.9053
1 TRY	0.5029	0.6380	0.5556	0.6766
100 KZT	0.8767	0.9916	0.9421	1.0038
1 MXN	0.1891	-	0.1815	-

Going concern

At the date of approval of these consolidated financial statements, no circumstances occurred that would point to a risk to continuity of operations by Selena Group companies. The Management Board of Selena FM S.A. also analysed the impact of COVID 19 (as described below) on the Parent Company's ability to continue as a going concern. As at the date of publication of these consolidated financial statements, Selena Group has a stable financial position, and its cash flow forecasts point to its ability to maintain its cash position at a level sufficient to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on the assumption of going concern.

Impact of the COVID-19 pandemic on Group's operations

In response to the current pandemic situation resulting from the spread of the SARS-CoV-2 coronavirus and the COVID-19 disease, the Parent Company's Management Board is monitoring situation on an ongoing basis, tracking health and state authorities' recommendations both in Poland and in countries where Selena Group companies are located.

As a result of operations of a dedicated Response Team, the following measures were designed and implemented to minimise the risk of contagion among employees and counterparties (inter alia):

– Developing the “Procedure for responding to suspected cases of COVID-19 in Selena Group”, updated based on current guidelines from the Chief Sanitary Inspectorate (GIS);
– Introducing the smart working procedure where possible, with a rotational presence of selected employees on the company’s premises with other team members working from home;
– Establishing rules for maintaining physical distance and using face masks;
– Limiting the number of meetings, and domestic and foreign business trips;
– Providing hand sanitisers and additional personal protection equipment for employees of Selena Group;
– Providing disinfectants and ensuring additional daily disinfection of common areas;
– Implementing a health monitoring procedure (temperature checks) for Selena Group employees.

So far, there have been no major disruptions in the supply of raw materials or production materials. Likewise, no major risks have been identified relating to employee absenteeism.

Due to the present situation, Selena Group has intensified its activities in the area of remote sales, and also started to manufacture hand sanitisers.

Selena Group is constantly monitoring and using the available opportunities to obtain support offered both under the "Anti-crisis shield" and under other provisions of applicable law. This applies in particular to the reduction of income tax advance payments, periodic exemption/ reduction regarding social security contributions, the use of wage-support for employees covered by reduced working time arrangements, as well as co-financing for social security contributions. In 2020, the Group used financial support to maintain jobs. The support was offered by government institutions in many countries of Selena Group’s operations, and totalled PLN 8.4 million.

In 2020, Selena Group reported a 4.4% increase in sales revenues compared to the same period last year. The impact of the pandemic on Selena Group’s activities in the following years will depend on the macroeconomic effects in Poland and in the countries where the subsidiaries operate. At present, the Management Board of Selena FM S.A. does not have full financial data that would enable it to make forecasts as to the impact of the situation on the Company’s financial position in the long term.

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

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the consolidated financial statements for 2020 have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena Group and its net profit. The Management Board’s report on the activities of Selena Group for 2020 gives a true view of development, achievements and the situation of the Company, including a description of key threats and risks.

1.3 Accounting policies

Basis of preparation and comparability of financial data

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) approved by the EU.

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

The accounting policies described in these financial statements were applied by the Group on a continuous basis for all periods presented.

Impact of new and amended standards and interpretations

The following list presents new standards and changes to the existing standards that became effective on 1 January 2020:

– Amendments to IFRS 3 Business Combinations;
– Amendments to IFRS 9, IAS 39 and IFRS 7 related to the IBOR reform;
– Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
– Amendments to References to the Conceptual Framework in IFRS;
– Amendments to IFRS 16 Leases.

The above standards and amendments to standards did not have any material impact on the Group's accounting policy or these consolidated financial statements.

Published standards and interpretations which have not come into force and which were not adopted earlier

The below list presents published standards, interpretations or amendments to existing standards before their effective date:

– IFRS 17 Insurance Contracts, and amendments to IFRS 17;
– Amendments to IAS 1 Presentation of Financial Statements;
– Amendments to IFRS 3 Business Combinations;
– Amendments to IAS 16 Property, Plant and Equipment;
– Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
– Annual Improvements to IFRS Standards 2018–2020;
– Amendments to IAS 1 Presentation of Financial Statements and IASB guidance regarding accounting policy disclosures;
– Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors:
– Amendments to IFRS 16 Leases;
– Amendments to IFRS 4: Application of IFRS 9 Financial Instruments;
– Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and 16 related to the IBOR reform;
– IFRS 14 Regulatory Deferral Accounts;
– Improvements to IFRS 10 and IAS 28 relating to sales or contributions of assets between an investor and its associates/joint ventures.

The effective dates are the dates arising from the standards published by the International Financial Reporting Board. The effective dates of the standards in the European Union may differ from the effective dates arising from the standards and are announced upon the adoption of the standards by the European Union.

The Group has not decided on early adoption of any standard, interpretation or amendment which have been published but not become effective yet. Selena Group is currently analysing how the above amendments will affect the consolidated financial statements.

Consolidation rules

These consolidated financial statements include the financial statements of the Parent Company and the financial statements of its subsidiaries, associates and joint ventures. 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 call options regarding non-controlling interests

Where a controlling interest is acquired in a subsidiary, if Selena Group does not own all shares in the entity and at the same time issues a call option for other shares, Selena Group 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, Selena Group recognises a financial liability in respect of the financial instrument with the call 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.

Investments in associates

Associates are entities which are significantly influenced by the Parent Company 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 Selena Group.

Investments in associates are measured using the equity method. 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.

Financial statements of subsidiaries with a functional currency other than PLN

The consolidated financial statements are presented in PLN, which is also the functional currency of the Parent Company and its Polish subsidiaries.

For the purposes of preparing the consolidated financial statements in the Selena Group's presentation currency, the following translations are made for individual items of the financial statements of the foreign entities whose functional currency is other than PLN:

a) asset and liability items – at closing rates, i.e. at the average exchange rate as at the end of the reporting period announced for a given currency by the National Bank of Poland;

b) items of the income statement, statement of comprehensive income and statement of cash flows – 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. In the event of significant fluctuations in the exchange rate in a given period, the revenues and expenses of the income statement and the statement of comprehensive income are translated at the rates applicable at transaction dates.

Foreign exchange differences arising on translation of foreign affiliates are recognised in other comprehensive income of the given period.

In its standalone financial statements, the Parent Company 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 and the Parent Company 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.

Information about the Group

2. Information about the Group

2.1 Activities of Selena Group

Selena FM Group (Selena Group, Group) is an international producer and distributor of construction chemicals. The Group's Parent is Selena FM S.A. of Wrocław, which on 18 April 2008 debuted on the main market of the Warsaw Stock Exchange.

The core business of the Group includes production, distribution and sale of construction chemicals and general building accessories. The Group's product range includes:

- gun and straw foams;
- high-yield and low-pressure foams;
- summer, winter and multi-season foams;
- specialist foams;
- foam adhesives;
- sealants;
- mounting and industrial adhesives, chemical anchors;
- flooring systems;
- WINS window insulation and sealing systems;
- thermal insulation systems (ETICS);
- systems for finishing interior walls;
- systems for ceramic tiles;
- mortars;
- waterproofing products;
- passive fire protection solutions;
- building accessories.

The products on offer include both solutions addressed to professionals and to individual users. The Group's leading brands include Tytan, Quilosa, Artelit, Cool-R and Matizol.

The Group's production plants are located in Poland, China, Romania, Turkey, Spain, Kazakhstan, South Korea and Italy, and its products are available on the markets of nearly 100 countries in the world. Selena also carries on research activities in Poland, China, Romania, Turkey, Spain and Italy.

2.2. 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 2020 and 31 December 2019.

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

The “owner” column specifies the owner as at 31 December 2020:

SELENA GLOBAL EXPERIENCE

	REGION	COUNTRY	ENTITY	REG. OFFICE	ACTIVITY	GROUP'S SHARE As at 31.12.2020	GROUP'S SHARE As at 31.12.2019	OWNER
European Union	Poland	Poland	Selena FM S.A.	Wrocław	Group's headquarters, distributor			-
			Selena S.A.	Wrocław	Distributor	100.00%	100.00%	FM
			Orion PU Sp. z o.o.	Dzierżoniów	Man. of foams and sealants	99.95%	99.95%	SIT 1
			Carina Silicones Sp. z o.o.	Siechnice	Manufacturer of sealants, provider of production services	100.00%	100.00%	SIT
			Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants and adhesives	100.00%	100.00%	SIT
			Izolacja Matizol Sp. z o.o.	Gorlice	Manuf. of roof coverings, waterproofing products, 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.	Dzierżoniów	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	Lease of plant and machinery	100.00%	100.00%	SIT
			Carina Sealants Sp. z o.o.	Siechnice	Administration	100.00%	100.00%	FM
			Selena Industrial Technologies Sp. z o.o.	Dzierżoniów	Manufacturer of sealants; production management	100.00%	100.00%	FM
			Oligo Sp. z o.o.	Dzierżoniów	Research and Development	99.65%	99.65%	SL
	Western Europe	Spain	Selena Iberia slu	Madrid	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	FM
		Italy	Selena Italia srl	Padova	Distributor	100.00%	100.00%	FM
			Uniflex S.R.L.	Mezzocorona	Manufacturer of sealants, distributor	100.00%	100.00%	FM
		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
		Kazakhstan	TOO Selena CA-Селена ЦА	Almaty	Distributor	100.00%	100.00%	FM
			TOO Selena Insulations	Nur-Sultan	Manufacturer of insulation systems and dry mortars	100.00%	100.00%	FM
		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 Co.Ltd	Shanghai	Distributor	40.00%	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.	Istambul	Distributor	100.00%	100.00%	SA 2
North and South America	N&S America	Brazil	Selena Sulamericana Ltda	Curitiba	Manufacturer, distributor	100.00%	100.00%	FM 3
		Mexico	Selena Mexico S. de R.L. de C.V.	Zapopan	Distributor	100.00%	-	FM 3
		USA	Selena USA, Inc.	Holland	Distributor	100.00%	100.00%	FM

Explanations to the "Owner" column

FM – 100% shares owned by Selena FM (SFM)
FM 1 – shares owned by SFM, other shares are owned by Krzysztof Domarecki
FM 2 – shares are owned by Selena FM (99%) and Selena S.A. (1%)
FM 3 – shares owned by Selena FM (95%) and Selena S.A. (5%)
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 – joint venture – owned by Selena Nantong Building Materials Co., Ltd.

SL – 100% shares owned by Selena Labs Sp. z o.o.
SA – 100% shares owned by Selena SA
SA 1 – shares are owned by Selena S.A., 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 – 99.99% shares owned by Selena Romania, other shares held by Selena FM

2.3 Changes in the Group composition

Increase in the share capital of POLYFOAM Yalitim Sanayi ve Tic Ltd.

On 9 January 2020, the General Meeting of POLYFOAM Yalitim Sanayi ve Tic Ltd. adopted a resolution to increase the company's share capital by TRY 17.9 million. The increase in the share capital of the subsidiary was registered on 20 February 2020. After the capital increase, the proportion of shareholdings of Selena S.A. and Carina Silicones Sp. z o.o. in the share capital of POLYFOAM did not change.

Establishment of the subsidiary Selena Mexico S.de R.L. de C.V.

On 13 February 2020, a newly formed company of Selena Group trading as Selena Mexico S.de R.L. de C.V. based in Guadalajara (Federal Republic of Mexico) was registered in the business register kept by the Commercial Register in Guadalajara. The company's share capital is MXN 10 thousand (fixed) and MXN 1,484 thousand (variable). The figures stated in Mexican peso are the equivalent of PLN 2,000 and PLN 312 thousand, respectively, calculated at the average exchange rate of the National Bank of Poland of 14 February 2020 (1 MXN = 0.2104 PLN). 95% stake in the subsidiary was acquired by Selena FM S.A. and 5% by Selena S.A.

Operating segments and information on revenues

3. Operating segments and information on revenues

Accounting policies

Revenue from contracts with customers
Selena Group's business includes production and sale of construction chemicals, building materials for doors and windows, and general building accessories.

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

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

Goods are delivered to the customer using transport services provided by the Group or by the customer. Selena Group usually sells goods using trade credit.

Where different goods are sold under one contract, the consideration should be allocated to each of the obligations.

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

Selena Group offers its customers discounts depending on the volume of purchases. In accordance with IFRS 15, volume discounts are treated as variable consideration. Revenue from variable consideration is recognized to the extent that there is a high likelihood that no significant part of revenues will be reversed. When calculating rebates, Selena Group uses information on the business made with the customer during the reporting period.

Obligations to return remuneration are recognised in relation to the anticipated volume rebates due to customers on account of sales completed by the end of the reporting period and are presented under a separate balance sheet heading ("Obligations to return remuneration").

The organisation structure of Selena Group is managed through the data received from the individual geographic segments (countries), later on referred to as operating segments. To the extent permitted by IFRS 8 (e.g. subject to the combination criteria in relation to the following aspects: type of products and services, type of production processes, type or group customers for products and services, methods used in the distribution of products and the type of regulatory environment), they are grouped based on the similarity of location, characteristics of the business and economic environment, and are aggregated into the following reporting segments:

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

Detailed allocation of operating segments to reporting segments is presented in Note 2.2.

Operating results of the segment are primarily measured using the net profit/loss and EBITDA ratio (an alternative measurement of results, which does not measure cash or liquidity and whose calculation may vary from one entity to another), which result directly from reports that are the basis for preparation of the consolidated financial statements. EBITDA is calculated according to the following formula:

EBITDA = Net profit/ loss + Income tax +/- share in the profit/loss of the affiliate +/- financial costs/income + Depreciation/amortisation

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 Selena Group's funding sources, financial income and costs 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.

Selena Group does not have key customers, i.e. such which would account for more than 10% of the its revenues.

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

from 01.01.2020 to 31.12.2020 Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolidation adjustments and non-allocated results	Total
Sales to external customers	884,713	414,706	85,316	1,384,735	0	1,384,735
Sales within a segment	1,008,186	34,767	0	1,042,953	-1,042,953	0
Sales between segments	285,940	12,464	0	298,404	-298,404	0
EBITDA	248,150	44,914	6,400	299,464	-133,773	165,691
Depreciation/ amortisation	-21,620	-2,747	-60	-24,427	-14,088	-38,515
Operating profit (loss)	**226,530**	**42,167**	**6,340**	**275,037**	**-147,861**	**127,176**
Net financial income/ (costs)	0	0	0	0	-33,356	-33,356
Share in profit of the associate	0	1,473	0	1,473	0	1,473
Income tax	0	0	0	0	-18,945	-18,945
Net profit (loss) for the period	**226,530**	**43,640**	**6,340**	**276,510**	**-200,162**	**76,348**
Capital expenditure	30,718	2,654	25	33,397		33,397

* consolidation adjustments, general and administrative expenses, result on financial activities and income tax

from 01.01.2019 to 31.12.2019 Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolidation adjustments and non-allocated results	Total
Sales to external customers	838,686	411,525	76,275	1,326,486	0	1,326,486
Sales within a segment	884,457	36,362	0	920,819	-920,819	0
Sales between segments	259,678	3,617	0	263,295	-263,295	0
EBITDA	182,158	43,384	7,083	232,625	-130,798	101,827
Depreciation/ amortisation	-21,634	-3,847	-123	-25,604	-12,661	-38,265
Operating profit (loss)	**160,524**	**39,537**	**6,960**	**207,021**	**-143,459**	**63,562**
Net financial income/ (costs)	0	0	0	0	-7,120	-7,120
Share in profit of the associate	0	470	0	470	0	470
Income tax	0	0	0	0	-17,232	-17,232
Net profit (loss) for the period	**160,524**	**40,007**	**6,960**	**207,491**	**-167,811**	**39,680**
Capital expenditure	24,628	2,349	8	26,985	-	26,985

* consolidation adjustments, general and administrative expenses, result on financial activities and income tax

The tables below show selected assets of the individual geographic segments as at 31 December 2020 and 31 December 2019.

Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolid. adjustments	Total
			as at 31.12.2020			
Segment assets	1,156,170	190,301	41,040	1,387,511	-496,182	891,329
Investment in the associate	0	6,174	0	6,174	0	6,174
Non-allocated assets	0	0	0	0	0	28,478
Total assets	**1,156,170**	**196,475**	**41,040**	**1,393,685**	**-496,182**	**925,981**

Figures in PLN thousand	EU	Eastern Europe and Asia	N&S America	Total segments	Consolid. adjustments	Total
			as at 31.12.2019			
Segment assets	1,014,280	194,036	33,317	1,241,633	-423,939	817,694
Investment in the associate	0	5,954	0	5,954	0	5,954
Non-allocated assets	0	0	0	0	0	25,095
Total assets	**1,014,280**	**199,990**	**33,317**	**1,247,587**	**-423,939**	**848,743**

Notes
to the consolidated income statement

4. Notes to the consolidated income statement

4.1 Operating costs

Costs by type

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Use of materials and energy	745,071	743,700
Cost of employee benefits	223,619	202,145
Depreciation/ amortisation	38,515	38,265
External services, including:	148,310	137,998
transport and logistics	*65,621*	*58,780*
advisory	*22,108*	*23,348*
lease, property protection	*15,204*	*12,505*
repair services, machine maintenance	*4,067*	*5,456*
IT services	*3,986*	*2,699*
telecommunication services	*1,823*	*1,806*
sales intermediation services	*5,031*	*4,901*
car maintenance	*562*	*1,190*
waste disposal	*3,355*	*2,386*
marketing services	*1,819*	*844*
certificates, attestations	*1,875*	*2,350*
debt collection services	*892*	*882*
other	*21,967*	*20,851*
Entertainment and advertising costs	10,618	13,571
Business travel costs	3,420	9,655
Taxes and charges	4,875	5,939
Other costs by type	9,321	10,683
Cost of goods and materials sold	91,967	79,815
Direct cost of recharged services	1,152	1,111
Operating costs	**1,276,868**	**1,242,882**
change in the balance of finished goods	-17,385	10,917
Total	**1,259,483**	**1,253,799**
including:		
Cost of sales	916,672	928,940
Selling and marketing costs	228,752	216,852
General and administrative expenses	114,059	108,007

Cost of employee benefits

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Salaries	180,628	165,186
Social insurance costs	32,434	29,865
Other costs of employee benefits	10,557	7,094
Total cost of employee benefits	**223,619**	**202,145**
including:		
Cost of sales	58,375	54,685
Selling and marketing costs	104,629	95,449
General and administrative expenses	60,615	52,011

Depreciation/amortisation

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Depreciation of tangible assets*	32,062	31,521
Amortisation of intangible assets	6,257	6,552
Depreciation/amortisation of other assets	196	192
Total depreciation/amortisation	**38,515**	**38,265**
including:		
Cost of sales	16,143	16,562
Selling and marketing costs	9,741	10,515
General and administrative expenses	12,631	11,188

* Including depreciation of the right-of-use assets of PLN 10,458 thousand for 2020.

4.2 Other operating income and operating costs

Other operating income

Accounting policies

Subsidies

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

Government subsidies for costs are recognised in profit or loss as other operating income for a period necessary to match them with the expenses they are to offset.

If the subsidy relates to an asset, it is recognised as deferred income and recognised in profit or loss (other operating income) using the straight-line method over the expected useful life of the underlying assets. The goal is to ensure the matching of subsidy revenues with their corresponding expenses.

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Profit from disposal of non-financial fixed assets	253	501
Subsidies	10,060	2,364
Damages	701	837
Provisions released	107	490
Liabilities cancelled	77	354
Repayment of receivables written off in previous periods	1,048	0
Reimbursement of overpaid social insurance fees	992	0
Other	675	1,711
Total other operating income	**13,913**	**6,257**

Revenues from subsidies primarily relate to the projects carried out by Selena Labs Sp. z o.o. (PLN 764 thousand) and Oligo Sp. z o.o. (PLN 2,615 thousand) in the area of R&D activity. In addition, in 2020 Selena Group companies received government aid as part of the anti-crisis shield in connection with the COVID-19 pandemic.

Other forms of public aid obtained by the Group companies also relate to tax exemptions, as described in Note 5 of these financial statements.

Other operating costs

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Loss on disposal of non-financial fixed assets	271	63
Amortisation of intangible assets	1,176	0
Uncollectible receivables written off	549	369
Damages, penalties, fines	975	1,678
Provisions raised	3,738	213
Liquidation of other current assets	0	4,912
Donations made	1,252	290
Other	904	615
Total other operating costs	**8,865**	**8,140**

Impairment of non-financial fixed assets

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Creating an impairment allowance for tangible and intangible assets – Selena Iberia	1,587	4,879
Reversal of impairment losses – merger of Big Elit and Selena CA	0	-603
Other	0	37
Impairment of non-financial fixed assets	**1,587**	**4,313**

Impairment of financial assets

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Recognition of an impairment allowance on receivables	3,255	4,028
Reversal of an impairment allowance on receivables	-1,718	-1,099
Impairment of financial assets	**1,537**	**2,929**

Financial income and costs

Accounting policies

Foreign exchange differences arising from both operating and financing activities are recognised in financial income and financial costs.

Financial income

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
FX gains	6,611	3,650
Interest on deposits and bank accounts	143	205
On loans granted	81	0
Other interest	64	390
Dividends and profit sharing	20	21
Derivative financial instruments	465	0
Result on the exercise of the call option (Uniflex S.R.L)	0	1,347
Other financial income	15	12
Total financial income	**7,399**	**5,625**

Financial costs

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
FX losses	18,324	3,475
Provision for litigations *	17,896	0
Interest on bank and other loans	2,677	4,582
Interest on leases	768	1,004
Other interest	183	88
Derivative financial instruments	0	2,042
Other financial costs	907	1,554
Total financial costs	**40,755**	**12,745**

* provision for the risk of an unfavorable outcome of court proceedings is described in Note 8.1 to these consolidated financial statements

In 2020, Selena FM S.A. hedged its expected cash flows with FX forwards and other financial instruments. In accordance with the its hedging policy, Selena Group hedges an active part of currency exposure. Selena FM S.A. uses such financial instruments solely to hedge its FX risk and does not use them for speculative purposes. The Group does not use hedge accounting within the meaning of IFRS 9.

The loss on the valuation of unrealised forward contracts in 2020 was PLN 1409 thousand (including valuation of open contracts of PLN -1,505 thousand as at 31 December 2020). The gain on exercise of the contracts was PLN 1,872 thousand. The result on transactions (PLN -465 thousand) was recognised in financial costs under “Derivative financial instruments”.

Taxation

5. Taxation

Accounting policies

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

Deferred income tax
Deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
A deferred tax liability is recognised in relation to all positive temporary differences:

- except when the liability arises as a result of initial recognition of a goodwill or an initial recognition of an asset or liability in a transaction other than business combination, and at the time of the transaction it did not have any impact on the PBT or taxable income or tax loss, and
- in the case of positive temporary differences arising from investments in subsidiaries or associates, and shares in joint ventures – except when the dates of reversal of the temporary differences are controlled by the investor and it is likely that in the foreseeable future the temporary differences will not be reversed.

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

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

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

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

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

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

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

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

The net amount of the VAT that can be recovered or that is due to the tax authorities is recognised in the balance sheet as a part of other short-term assets or non-financial liabilities.

Important estimates and assumptions

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

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.

Tax charge

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Current income tax:		
Current income tax charge	23,259	17,485
Corrections to the current income tax from previous years	-418	190
Deferred income tax:		
Connected with origination and reversal of temporary differences	-3,896	-443
Tax disclosed in consolidated income statement	**18,945**	**17,232**

Reconciliation of the effective tax rate

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Profit (loss) before tax	**95,293**	**56,912**
Tax at the Polish statutory rate of 19%	**18,106**	**10,813**
Costs/ (revenues) not included in the taxation basis	1,263	4,052
Tax effect of the losses not included in the taxation basis	1,813	3,320
Corrections to the current income tax from previous years	-418	189
Use of tax losses from previous years after taking into account the realized asset	-1,716	-1,269
Tax relief for research and development	-1,808	-1,211
Use of the deferred asset relating to trademarks	1,723	1,723
Tax relief for operations in the Special Economic Zone	-745	0
Effect of other tax rates in foreign affiliates	727	-385
Tax at the effective tax rate	**18,945**	**17,232**
Effective tax rate	**20%**	**30%**

Accumulated tax losses

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Unappropriated tax losses from previous years for which no deferred tax asset was recognised	156,962	136,233
Potential positive tax effect according at the average tax rate of 22%	34,532	29,971

Deferred income tax

Figures in PLN thousand	As at 31.12.2020	from 01.01.2020 to 31.12.2020	As at 31.12.2019	from 01.01.2019 to 31.12.2019
Deferred tax liability on positive temporary differences				
Net value of tangible assets under lease	1,669	1,619	50	-285
Difference between the net book value and tax value of non-financial fixed assets	7,128	90	7,038	325
Interest not received	3,542	-339	3,881	1,010
Valuation of trademarks	1,187	-107	1,294	-314
Other	768	507	261	-294
FX differences arising on translation	-	-391	-	42
Deferred tax liability	**14,294**	**1,379**	**12,524**	**485**
Deferred tax liability (after set-off)	**3,784**	**-**	**3,843**	**-**
Deferred tax assets on negative temporary differences				
Tax losses to be deducted*	4,825	4,969	9,794	-2,658
Impairment allowances on receivables	1,673	-195	1,478	210
Provision for the cost of audit of financial statements	94	-52	42	-6
Provision for the cost of unutilised leaves	539	-104	435	62
Retirement provision	319	-65	254	-74
Accruals	3,142	-1,463	1,679	598
Interest not paid	675	-466	209	-141
Liability in respect of unpaid remuneration	1,776	-1,399	377	-54
Impairment allowance on inventories	1,181	-657	524	309
Use of deferred tax on trademarks	7,553	1,723	9,276	1,723
Deferred tax relating to margin elimination	4,525	-1,519	3,006	-52
Unrealised FX losses	503	562	1,064	361
Other	7,523	-6,113	1,410	-698
FX differences arising on translation	-	536	-	-3
Deferred tax assets	**34,327**	**-4,244**	**29,548**	**-424**
Deferred tax assets after set-off	**23,817**	**-**	**20,867**	**-**
Change in deferred tax reflected in equity	**-**	**1,032**	**-**	**504**
Change in deferred tax reflected in net profit	**-**	**-3,896**	**-**	**-443**

** including as at 31 December 2020, PLN 3.4 million relates to deferred tax assets on tax losses of Selena Iberia slu*

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	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Credit/charge to the profit and loss account in respect of a deferred tax asset	-4,244	-424
Set-off of deferred tax assets and liabilities	1,827	-259
FX differences arising on balance sheet valuation in foreign affiliates	-534	3
Balance sheet change in the deferred tax asset	**-2,950**	**-680**
Credit/charge to the profit and loss account in respect of a deferred tax liability	347	-21
Deferred tax recognised in other comprehensive income	1,032	504
Set-off of deferred tax assets and liabilities	-1,827	259
FX differences arising on balance sheet valuation in foreign affiliates	389	-42
Balance sheet change in the deferred tax liability	**-59**	**700**

Activity in special economic zones

Orion PU Sp. z o.o operated in the Special Economic Zone (SEZ) of Wałbrzych until 28 May 2017 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 2020, the company paid in a total of PLN 11,572.8 thousand to the Fund. The company received subsidies totalling PLN 3,051.6 thousand to the technological projects involving changes in the technology of production of polyurethane foams.

Notes
to the consolidated statement of financial position

6. Notes to the consolidated statement of financial position

6.1 Financial instruments

Accounting policies

Financial assets

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

Financial assets measured at amortised cost are debt instruments held to collect contractual cash flows which include only payments of principal and interest. To this category Selena Group classifies trade receivables, loans granted to non-Group entities, other financial receivables and cash and cash equivalents.

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

Financial assets measured at fair value through other comprehensive income are:

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

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

Financial assets measured at fair value through profit or loss are financial instruments which do not meet the criteria for measurement at amortised cost or fair value through other comprehensive income. In the category of assets measured at fair value through profit or loss Selena Group classifies derivatives, factored trade receivables where the terms of the factoring agreement result in the respective amounts to be no longer treated as receivables, as well as loans which have not passed the SPPI test and dividends. Forward transactions (forward contracts) are recognised in the books as at the transaction date.

Financial liabilities

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

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

Trade liabilities are recognised at the amount due.

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

Financial instruments held the Group are classified below.

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Financial assets measured at amortised cost		
Trade receivables	251,907	237,892
Loans granted	*42,000*	*0*
Restricted cash	*107*	*378*
Other	*170*	*125*
Total – Other long term financial assets measured at amortised cost	42,277	503
Loans granted	*81*	*0*
Settlements with customers on account of credit card payments	*8,291*	*5,023*
Promissory notes, cheques	*1,482*	*214*
Security deposits	*690*	*618*
Other	*2,001*	*2,232*
Total other short term financial assets measured at amortised cost	12,545	8,087
Cash and cash equivalents	55,004	85,653
Financial assets measured at fair value through other comprehensive income		
Other long-term financial assets – shares in non-listed companies	819	819
Total	**362,552**	**332,954**

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Financial liabilities measured at amortised cost		
Bank and other loans	*49,752*	*103,907*
Lease liabilities	*32,454*	*37,729*
Other short-term financial liabilities – Liabilities on account of prepaid trade receivables	*226*	*12,725*
Total – Interest-bearing debt	82,432	154,361
Trade liabilities	187,337	143,986
Investment liabilities	*2,580*	*1,591*
Other	*551*	*2,429*
Total – Other short term financial liabilities (not specified above)	3,131	4,020
Other	*115*	*109*
Other long term financial liabilities	115	109
Financial liabilities measured at fair value through profit or loss		
Other short-term liabilities – forward contracts	1,505	96
Total	**274,520**	**302,572**

The Group's exposure to various risk types related to financial instruments is discussed in Note 7.2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets listed above.

Fair value of financial instruments that Selena Group held as at 31 December 2020 and 31 December 2019 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 the discount is not material;
– the instruments relate to the transactions concluded on market terms.

Based on the methods used to determine fair value, Selena Group classifies individual assets and liabilities into the following categories:

– Level 1: assets and liabilities measured on the basis of quoted prices in active markets for identical instruments.

– Level 2: assets and liabilities measured using valuation techniques based on directly or indirectly observable market quotes or other inputs based on market quotes.

– Level 3: assets and liabilities measured using valuation techniques whose inputs are not based on observable market data.

As at 31 December 2020, the Group included financial instruments measured at fair value to Level 2 fair value measurement, i.e.:

– The fair valuation of forward contracts through profit or loss – valuation using observable inputs other than quoted prices (the present value of future cash flows is determined based on forward FX rates as at the balance sheet date);

– Valuation of shares in non-listed companies – in 2020, Selena Group did not recognise the result from the fair valuation of these assets in other comprehensive income.

6.1.1 Trade receivables

Accounting policies

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

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Gross trade receivables	275,672	263,407
Impairment allowance on trade receivables	-23,765	-25,516

Detailed information on the classification of financial receivables to the individual credit risk degrees, as well as the methodology for calculating impairment allowances are presented in Note 7.2.3.

6.1.2 Cash

Accounting policies

Cash and short-term deposits presented in the consolidated statement of financial position 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 consolidated statement of cash flows consists of the items specified above. Selena Group classifies cash and cash equivalents as financial assets at amortised cost, taking into account impairment allowances determined in accordance with the expected loss model. To estimate the expected loss for cash and cash equivalents, the risk of non-payment has been determined other data, particularly credit worthiness assessment carried out by rating agencies or granted to counterparties as part of the internal credit risk assessment process, adjusted for the

The analysis showed that these assets have a low credit risk as at the reporting date. As at 31 December 2019, the calculation of the allowance showed that its amount was negligible, so Selena Group decided not to make an adjustment.
Overdrafts are presented in the statement of financial position as a component of bank and other loans, under short-term or long-term liabilities, as appropriate.

assessed probability of default.

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Cash in bank	50,491	64,615
Cash on hand	262	375
Cheques (up to 3 months)	4,193	7,744
Short-term deposits	58	12,914
Cash in transit	0	5
Total	**55,004**	**85,653**

Credit risk related to cash and cash equivalents is described in Note 7.2.3.

6. 1.3 Bank and other loans

Accounting policies

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.

The incurred bank loans are presented in the table below

			As at 31.12.2020		As at 31.12.2019	
Ref	Loan type	Maturity date	*Long-term portion*	*Short-term portion*	*Long-term portion*	*Short-term portion*
1	Working capital loan	2020	0	0	0	19,816
2	Working capital loan	2021	0	21,636	61,972	3
3	Other	2021-2026	14,107	14,009	7,543	14,573
			14,107	**35,645**	**69,515**	**34,392**

Credit 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 2020, Selena Group maintained the consolidated financial ratios at the levels required by the lenders.

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 (figures in PLN m)
Tangible assets (mortgage/pledge)	86.2
Inventories	64.2
Trade receivables from non-related parties	37.5

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

- a declared current account turnover;
- a corporate guarantee of another Selena Group company;
- a blank promissory note.

Subsequent events

On 09 April 2021, an annex was signed to the guarantee and LC line agreement. The annex maintained the amount of the guarantee line at EUR 10.5 million. At the same time, the original period of availability of the bank guarantee and the LC was extended.

6.1.4 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 in 2020.

Figures in PLN thousand	Bank loans	Leases	Other financial liabilities	Total
Debt as at 1 January 2020	**103,907**	**37,729**	**96**	**141,732**
Changes resulting from cash flows, including:	**-56,136**	**-14,600**	**0**	**-70,736**
financing received	37,358	0	0	37,358
repayment of principal	-90,830	-14,398	0	-105,228
interest and fees paid	-2,664	-202	0	-2,866
Non-cash changes, including:	**1,981**	**9,325**	**-96**	**11,210**
lease agreements signed	0	15,162	0	15,162
interest and fees accrued	2,676	583	0	3,259
FX differences	*-695*	*524*	*0*	*-171*
modification of leases	0	-6,944	0	-6,944
other	0	0	-96	-96
Debt balance as at 31 December 2020	**49,752**	**32,454**	**0**	**82,206**

The table below presents information on changes in the level of debt on cash flows items and non-cash changes in 2019.

Figures in PLN thousand	Bank loans	Leases	Other financial liabilities	Total
Debt as at 1 January 2019	**145,387**	**11,212**	**5,885**	**162,484**
Changes resulting from cash flows, including:	**-46,540**	**-14,505**	**-3,973**	**-65,018**
financing received	85,995	0	0	85,995
repayment of principal	-127,952	-14,151	0	-142,103
interest and fees paid	-4,583	-354	0	-4,937
purchase of additional shares in a subsidiary	0	0	-3,973	-3,973
Non-cash changes, including:	**5,060**	**41,022**	**-1,816**	**44,266**
lease agreements signed	0	40,372	0	40,372
interest and fees accrued	4,582	1,004	0	5,586
FX differences	478	-39	-469	-30
exercise of the option to buy back shares in a subsidiary	0	0	-1,347	-1,347
other	0	-315	0	-315
Debt balance as at 31 December 2019	**103,907**	**37,729**	**96**	**141,732**

6.1.5 Lease liabilities

Accounting policies

Lease liabilities are initially measured based on the present value of lease payments during the lease contract.
The payment included in the measurement includes:
- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease (where the estimated lease term provides for early lease termination).

The lease fees exclude variable lease payments that depend on external factors. Variable lease payments not included in the initial valuation of the lease liability are recognised directly in the profit and loss account.
Lease payments are discounted using the Company's incremental borrowing rate or the interest rate implicit in the lease (if available).

Lease term
The lease term determined by the Company includes:
- the non-cancellable lease period;
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.
Subsequent measurement of the lease liability
After the commencement date, Company measures lease liabilities by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

Important estimates and assumptions

The estimates affecting the measurement of lease liabilities made by the Group include:
– identification of leases that meet the definition of a lease in accordance with IFRS 16;
– assumptions about the useful lives of leases (lease term);
– calculation of the incremental interest rates used to discount future cash flows.

Figures in PLN thousand	As at 31.12.2020 Nominal value	Current value	As at 31.12.2019 Nominal value	Current value
Payments up to 1 year	13,763	13,392	15,122	14,250
up to 3 months	3,714	3,643	4,421	4,257
3 to 12 months	10,049	9,749	10,701	9,993
Payments from 1 to 5 years	17,976	16,664	22,902	21,653
Payments above 5 years	2,470	2,398	1,857	1,826
Total lease payments	**34,209**	**32,454**	**39,881**	**37,729**
Less financial costs	-1,755		-2,152	
Current value of minimum lease payments	**32,454**	**32,454**	**37,729**	**37,729**

Lease amounts recognised in the reporting period

The following lease amounts are presented in the consolidated income statement:

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Depreciation of the right-of-use assets	10,458	11,182
Interest expense	583	1,004
Costs related to short-term leases	3,310	1,778
Costs related to low-value leases	105	163
Costs related to variable lease payments	0	0

6.1.6 Revenues, expenses, profits and losses disclosed in the consolidated income statement by categories of financial instruments

		Year ended 31 December 2020			
Figures in PLN thousand	**Note**	**WwWGpWF**	**AFwgZK**	**ZFwgZK**	**Total**
Interest income (+) / costs (-)	4.3	0	286	-3,593	**-3,307**
FX gains (+)/ losses (-)	4.3	0	8,812	-20,747	**-11,935**
Impairment losses (-) on financial receivables	4.2	0	-3,255	0	**-3,255**
Reversal of losses of financial receivables (+)	4.2	0	1,718	0	**1,718**
Gains (+)/ losses (-) on valuation of forward contracts	4.3	-1,410	0	0	**-1,410**
Gains (+)/ losses (-) on exercise of forward contracts	4.3	1,875	0	0	**1,875**
Total net gain/loss		**465**	**7,561**	**-24,340**	**-16,314**

Terms used:

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

AFwgZK – Financial assets measured at amortised cost

ZFwgZK – Financial liabilities measured at amortised cost

		Year ended 31 December 2019			
Figures in PLN thousand	**Note**	**WwWGpWF**	**AFwgZK**	**ZFwgZK**	**Total**
Interest income (+) / costs (-)	4.3	0	404	-5,625	**-5,221**
FX gains (+)/ losses (-)	4.3	0	-2,336	2,614	**278**
Impairment losses (-) on financial receivables	4.2	0	-4,028	0	**-4,028**
Reversal of losses of financial receivables (+)	4.2	0	1,099	0	**1,099**
Gains (+)/ losses (-) on valuation of forward contracts	4.3	-372	0	0	**-372**
Gains (+)/ losses (-) on exercise of forward contracts	4.3	-1,670	0	0	**-1,670**
Total net gain/loss		**-2,042**	**-4,861**	**-3,011**	**-9,914**

Terms used:

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

AFwgZK – Financial assets measured at amortised cost

ZFwgZK – Financial liabilities measured at amortised cost

6.2. Non-financial assets and liabilities

6.2.1 Changes in the value of tangible fixed assets

Accounting policies

Property, plant and equipment are carried at cost reduced by depreciation and impairment allowances. 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 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 tangible assets	from 3 to 10

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

Depreciable assets acquired under finance leases are depreciated over the useful life of the assets if the contract transfer the ownership of the leased asset to the lessee. If the contract does not provide for transfer of the leased asset to the lessee, then the asset is depreciated over the lease term. Depreciation for tangible assets is recognised in profit and loss account 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 allowances are recognised in the profit and loss account under impairment of non-financial assets.

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

Fixed assets under construction include all the fixed assets that are during construction or assembly and are recognised at cost reduced by impairment allowances, 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.

Borrowing costs

Accounting policies

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.

Either in the year ended 31 December 2020 or 31 December 2019, no borrowing costs were capitalised.

Changes in the individual groups of tangible fixed assets

Figures in PLN thousand	Land	Buildings and structures	Plant and machinery	Vehicles	Other tangible assets	Tangible assets under construction	Total
Initial value							
as at 1.01.2020	**22,065**	**164,013**	**199,062**	**12,734**	**17,957**	**12,003**	**427,834**
increases, including:	483	2,912	4,703	1,462	485	21,579	**31,624**
Acquisition	483	2,903	3,298	757	447	21,579	**29,467**
Repurchase of fixed assets under lease	0	0	1,405	705	0	0	**2,110**
Other	0	9	0	0	38	0	**47**
Transfers from investments	0	1,261	18,226	393	309	-20,189	**0**
Transfers from investments in the right of use	0	0	0	-172	0	0	**-172**
Decreases, including:	0	199	5,561	920	256	93	**7,029**
Sale, Liquidation	0	199	2,980	730	122	49	**4,080**
Transfers	0	0	2,314	0	79	37	**2,430**
Other	0	0	267	190	55	7	**519**
FX diff. on translation of foreign subsidiary	1,300	1,443	6,705	-494	263	-556	**8,661**
as at 31.12.2020	**23,848**	**169,430**	**223,135**	**13,003**	**18,758**	**12,744**	**460,918**
Write-off							
as at 1.01.2020	**0**	**57,157**	**131,372**	**10,174**	**13,764**	**0**	**212,467**
increases, including:	0	6,250	13,245	1,574	1,363	0	**22,432**
Amortisation for the period	0	*6,230*	*12,893*	*1,152*	*1,329*	*0*	***21,604***
Repurchase of fixed assets under lease	0	*0*	*352*	*422*	*0*	*0*	***774***
Other	0	*20*	*0*	*0*	*34*	*0*	***54***
Decreases, including:	0	358	3,714	856	162	0	**5,090**
Sale, Liquidation	0	*199*	*2,557*	*694*	*83*	*0*	***3,533***
Transfers	0	*159*	*806*	*0*	*54*	*0*	***1,019***
Other	0	*0*	*351*	*162*	*25*	*0*	***538***
FX diff. on translation of foreign subsidiary	0	1,002	5,573	-300	258	0	**6,533**
as at 31.12.2020	**0**	**64,051**	**146,476**	**10,592**	**15,223**	**0**	**236,342**

Impairment allowances							
as at 1.01.2020	**0**	**11,701**	**7,170**	**0**	**0**	**579**	**19,450**
Increases	0	0	0	0	0	6	**6**
Decreases	0	0	0	0	0	0	**0**
FX diff. on translation of foreign subsidiary	0	674	235	0	0	0	**909**
as at 31.12.2020	**0**	**12,375**	**7,405**	**0**	**0**	**585**	**20,365**
Net value							
as at 1.01.2020	**22,065**	**95,155**	**60,520**	**2,560**	**4,193**	**11,424**	**195,917**
as at 31.12.2020	**23,848**	**93,004**	**69,254**	**2,411**	**3,535**	**12,159**	**204,211**

Figures in PLN thousand	Land	Buildings and structures	Plant and machinery	Vehicles	Other tangible assets	Tangible assets under construction	Total
Initial value							
as at 1.01.2019	**22,331**	**169,830**	**201,349**	**17,142**	**20,117**	**5,644**	**436,413**
presentation change – IFRS 16 *	**0**	**-4,910**	**-9,290**	**-3,926**	**0**	**0**	**-18,126**
as at 01.01.2019 after the presentation change – IFRS 16	**22,331**	**164,920**	**192,059**	**13,216**	**20,117**	**5,644**	**418,287**
increases, including:	0	366	5,114	2,059	511	14,464	**22,514**
Acquisition	*0*	*366*	*4,284*	*1,392*	*511*	*14,464*	***21,017***
Transfers	*0*	*0*	*640*	*0*	*0*	*0*	***640***
Repurchase of fixed assets under lease	*0*	*0*	*0*	*623*	*0*	*0*	***623***
Other	*0*	*0*	*190*	*44*	*0*	*0*	***234***
Transfers from investments	0	781	5,287	44	315	-6,427	**0**
Transfers from investments in the right of use	0	0	0	0	0	-1,046	**-1,046**
Decreases, including:	0	778	1,969	2,719	2,837	621	**8,924**
Sale, Liquidation	*0*	*134*	*1,927*	*2,719*	*2,770*	*161*	***7,711***
Transfers	*0*	*640*	*0*	*0*	*0*	*0*	***640***
Other	*0*	*4*	*42*	*0*	*67*	*460*	***573***
FX diff. on translation of foreign subsidiary	-266	-1,276	-1,429	134	-149	-11	**-2,997**
as at 31.12.2019	**22,065**	**164,013**	**199,062**	**12,734**	**17,957**	**12,003**	**427,834**
Write-off							
as at 1.01.2019	**0**	**53,325**	**124,167**	**12,071**	**14,820**	**0**	**204,383**
presentation change – IFRS 16 *	**0**	**-1,475**	**-1,655**	**-1,111**	**0**	**0**	**-4,241**
as at 01.01.2019 after the presentation change – IFRS 16	**0**	**51,850**	**122,512**	**10,960**	**14,820**	**0**	**200,142**
increases, including:	0	5,938	11,712	1,670	1,775	0	**21,095**
Amortisation for the period	*0*	*5,938*	*11,346*	*1,302*	*1,753*	*0*	***20,339***
Repurchase of fixed assets under lease	*0*	*0*	*0*	*368*	*0*	*0*	***368***
Transfers	*0*	*0*	*137*	*0*	*0*	*0*	***137***
Other	*0*	*0*	*229*	*0*	*22*	*0*	***251***
Decreases, including:	0	275	1,921	2,504	2,748	0	**7,448**
Sale, Liquidation	*0*	*134*	*1,879*	*2,504*	*2,725*	*0*	***7,242***
Transfers	*0*	*137*	*0*	*0*	*0*	*0*	***137***
Other	*0*	*4*	*42*	*0*	*23*	*0*	***69***
FX diff. on translation of foreign subsidiary	0	-356	-931	48	-83	0	**-1,322**
as at 31.12.2019	**0**	**57,157**	**131,372**	**10,174**	**13,764**	**0**	**212,467**

Impairment allowances							
as at 1.01.2019	**0**	**12,206**	**7,534**	**0**	**1**	**703**	**20,444**
Increases	0	0	135	0	0	0	**135**
Decreases	0	279	325	0	1	124	**729**
FX diff. on translation of foreign subsidiary	0	-226	-174	0	0	0	**-400**
as at 31.12.2019	**0**	**11,701**	**7,170**	**0**	**0**	**579**	**19,450**
Net value							
as at 1.01.2019	**22,331**	**104,299**	**69,648**	**5,071**	**5,296**	**4,941**	**211,586**
as at 01.01.2019 after the presentation change – IFRS 16	**22,331**	**100,864**	**62,013**	**2,256**	**5,296**	**4,941**	**197,701**
as at 31.12.2019	**22,065**	**95,155**	**60,520**	**2,560**	**4,193**	**11,424**	**195,917**

* The item of property, plant and equipment presented in the published financial statements for 2018 contained tangible assets under finance lease. As at 1 January 2019, these assets were transfered to the table of movements concerning the right-of-use assets.

6.2.2. Changes in the value of the right-of-use asset

Accounting policies

The Company recognises right-of-use assets and lease liabilities at the commencement date of the leases as part of which the right to control the use of certain assets is conveyed for a certain period of time. The lease commencement date is the date when the lessor makes the leased asset available to the lessee.
The right-of-use asset is initially measured at cost, which comprises:
- the amount of the initial measurement of the lease liability;
- lease payments made on or before the lease contract date, reduced by any incentives received;
- any initial costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

After the lease commencement date, the right-of-use asset is measured at cost less depreciation and total impairment losses as well as the lease liability adjusted for impairment.

Depreciation is calculated using the straight-line method over the shorter of the estimated useful life or the lease period, which is as follows:

	Lease term (in years)
Buildings	2-5
Technical equipment and machines	2-5
Vehicles	2-5
Other	2-5

No depreciation is applied in the case of the right-of use assets relating to the perpetual usufruct of land.
If the lease transfers to the Company the title to the given asset before the end of the lease term or when the cost of the right-of use asset reflects the fact that the option of buying leased asset at its residual value will be exercised, the Company depreciates the right-of use asset from the moment of lease commencement until the end of the estimated economic life of the asset. In other cases, the right-of use asset is depreciated from the lease commencement date to the earlier of the two dates – the end of the economic life of the asset or the lease end date.

Important estimates and assumptions

The estimates affecting the measurement of right-of use assets made by the Group include:
– determination of contracts that meet the definition of a lease in accordance with IFRS 16;
– assumptions regarding the economic lives of the right-of use assets;
– calculation of incremental borrowing rates used for estimating the current value of the right-of-use assets.

Figures in PLN thousand	Buildings and structures	Plant and machinery	Vehicles	Other tangible assets	Total
Initial value					
as at 1.01.2020	**26,556**	**14,587**	**13,477**	**0**	**54,620**
increases, including:	9,299	2,314	6,534	121	**18,268**
Signing new leases	*9,297*	*0*	*6,534*	*0*	***15,831***
Transfers	*0*	*2,309*	*0*	*121*	***2,430***
Other	*2*	*5*	*0*	*0*	***7***
Transfers from investments from fixed assets under construction	0	0	172	0	**172**
Decreases, including:	11,614	1,415	3,474	0	**16,503**
Liquidation	*4,670*	*0*	*2,768*	*0*	***7,438***
Repurchase of right-of-use assets	*0*	*1,405*	*705*	*0*	***2,110***
Modification of leases	*6,944*	*0*	*0*	*0*	***6,944***
Other	*0*	*10*	*1*	*0*	***11***
FX diff. on translation of foreign subsidiary	756	570	255	3	**1,585**
as at 31.12.2020	**24,997**	**16,056**	**16,964**	**124**	**58,142**
Write-off					
as at 1.01.2020	**7,117**	**2,865**	**4,934**	**0**	**14,916**
increases, including:	5,393	1,581	4,445	58	**11,477**
Depreciation for the period	*5,254*	*754*	*4,445*	*5*	***10,458***
Transfers	*139*	*827*	*0*	*53*	***1,019***
Decreases, including:	4,446	352	3,005	0	**7,803**
Liquidation	4,446	0	2,583	0	**7,029**
Repurchase of right-of-use assets	*0*	*352*	*422*	*0*	***774***
FX diff. on translation of foreign subsidiary	232	133	94	1	**460**
as at 31.12.2020	**8,296**	**4,227**	**6,468**	**59**	**19,050**
Net value					
as at 1.01.2020	**19,439**	**11,722**	**8,543**	**0**	**39,704**
as at 31.12.2020	**16,701**	**11,829**	**10,496**	**65**	**39,092**

Figures in PLN thousand	Buildings and structures	Plant and machinery	Vehicles	Total
Initial value				
As at 01.01.2019 after the presentation change	**4,910**	**9,290**	**3,926**	**18,126**
Impact of implementation of IFRS 16	11,176	0	7,110	**18,286**
as at 01.01.2019 after adoption of IFRS 16	**16,086**	**9,290**	**11,036**	**36,412**
increases, including:	10,909	5,364	2,224	**18,497**
Signing new leases	*10,909*	*5,364*	*2,224*	***18,497***
Transfers from investments from fixed assets under construction	0	0	1,046	**1,046**
Decreases, including:	320	9	762	**1,091**
Repurchase, Liquidation	*5*	*9*	*762*	***776***
Modification of leases	*315*	*0*	*0*	***315***
FX diff. on translation of foreign subsidiary	-119	-58	-67	**-244**
as at 31.12.2019	**26,556**	**14,587**	**13,477**	**54,620**
Write-off				
As at 01.01.2019 after the presentation change	**1,475**	**1,655**	**1,111**	**4,241**
increases, including:	5,685	1,222	4,275	**11,182**
Depreciation for the period	*5,685*	*1,222*	*4,275*	***11,182***
Decreases, including:	2	0	424	**426**
Repurchase, Liquidation	*2*	*0*	*424*	***426***
FX diff. on translation of foreign subsidiary	-41	-12	-28	**-81**
as at 31.12.2019	**7,117**	**2,865**	**4,934**	**14,916**

Net value				
as at 1.01.2019	14,611	7,635	9,925	32,171
as at 31.12.2019	19,439	11,722	8,543	39,704

6.2.3. Intangible assets

Accounting policies

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

Intangible assets are amortised throughout the period of their use, and are tested for impairment each time when indications of impairment are identified. The period and method of amortisation of such assets are reviewed at least at the end of each accounting year.
Intangible assets that had not been put into use by the balance sheet date, are tested for impairment each year or more often – if during the reporting period there is an indication that the carrying amount may not be recoverable.
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 are reviewed each year and if needed are corrected effective from the beginning of the current reporting period.

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

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.

If the net amount of the identifiable assets and liabilities acquired exceeds the payment for the acquired entity, Selena Group recognises the gain on bargain purchase directly in the profit or loss of the period in which the entity was 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.

Changes in intangible assets

Figures in PLN thousand	Goodwill	Software	Trademarks	Other*	Intangible assets construction	Total
Initial value						
as at 1.01.2020	**20,277**	**32,612**	**24,980**	**20,106**	**8,965**	**106,940**
Increases, including:	**0**	**342**	**0**	**0**	**4,442**	**4,784**
Acquisition	0	342	0	0	4,442	**4,784**
Transfers from investments	0	9	0	809	-818	**0**
Decreases, including:	**0**	**47**	**2**	**1,515**	**4,727**	**6,291**
Sale, Liquidation	0	47	2	1,515	4,727	**6,291**
FX diff. on translation of foreign subsidiary	-233	694	914	756	218	**2,349**
as at 31.12.2020	**20,044**	**33,610**	**25,892**	**20,156**	**8,080**	**107,782**
Write-off						
as at 1.01.2020	**0**	**17,475**	**18,240**	**6,577**	**0**	**42,292**
Increases, including:	**0**	**3,654**	**1,317**	**1,286**	**0**	**6,257**
Amortisation for the period	0	3,654	1,317	1,286	0	**6,257**
Decreases, including:	**0**	**71**	**0**	**0**	**0**	**71**
Sale, Liquidation	0	71	0	0	0	**71**
FX diff. on translation of foreign subsidiary	0	413	452	422	0	**1,287**
as at 31.12.2020	**0**	**21,471**	**20,009**	**8,285**	**0**	**49,765**
Impairment allowances						
as at 1.01.2020	**7,412**	**0**	**0**	**1,515**	**3,229**	**12,156**
Increases/ decreases:	**0**	**0**	**0**	**1,515**	**-1,659**	**-144**
Impairment allowances	0	0	0	0	1,570	**1,570**
Use of allowance	0	0	0	1,515	3,229	**4,744**
FX diff. on translation of foreign subsidiary	98	0	0	0	49	**147**
as at 31.12.2020	**7,510**	**0**	**0**	**0**	**1,619**	**9,129**
Net value						
as at 1.01.2020	**12,865**	**15,137**	**6,740**	**12,014**	**5,736**	**52,492**
as at 31.12.2020	**12,534**	**12,139**	**5,883**	**11,871**	**6,461**	**48,888**

** including measurement of the acquired perpetual usufruct right of land for the purpose of IFRS 16. The total value of future conditional perpetual usufruct fees land use as at 31.12.2020 amounts to PLN 2,374 thousand and is presented in the table above under Other intangible assets.*

Figures in PLN thousand	Goodwill	Software	Trademarks	Other	Intangible assets construction	Total
Initial value						
as at 1.01.2019	**20,241**	**30,856**	**25,080**	**15,507**	**7,346**	**99,030**
Impact of implementation of IFRS 16*	0	0	0	1,749	0	**1,749**
as at 01.01.2019 after adoption of IFRS 16	**20,241**	**30,856**	**25,080**	**17,256**	**7,346**	**100,779**
Increases, including:	0	540	4	1,447	4,689	**6,680**
Acquisition	0	540	4	820	4,689	**6,053**
Acquired right to perpetual usufruct of land – IFRS 16	0	0	0	627	0	**627**
Transfers from investments	0	1,399	0	1,626	-3,025	**0**
Decreases, including:	0	94	0	132	21	**247**
Sale, Liquidation	0	94	0	132	21	**247**
FX diff. on translation of foreign subsidiary	36	-89	-104	-91	-24	**-272**
as at 31.12.2019	**20,277**	**32,612**	**24,980**	**20,106**	**8,965**	**106,940**
Write-off						
as at 1.01.2019	0	14,235	16,616	5,210	0	**36,061**
Increases, including:	0	3,374	1,646	1,532	0	**6,552**
Amortisation for the period	0	3,374	1,646	1,532	0	**6,552**
Decreases, including:	0	85	0	127	0	**212**
Sale, Liquidation	0	85	0	127	0	**212**
FX diff. on translation of foreign subsidiary	0	-49	-22	-38	0	**-109**
as at 31.12.2019	**0**	**17,475**	**18,240**	**6,577**	**0**	**42,292**
Impairment allowances						
as at 1.01.2019	**7,416**	**0**	**0**	**5**	**0**	**7,421**
Increases/ decreases:	0	0	0	1,510	3,229	**4,739**
Impairment allowances	0	0	0	1,515	3,229	**4,744**
Write-off of the allowance	0	0	0	-5	0	**-5**
FX diff. on translation of foreign subsidiary	-4	0	0	0	0	**-4**
as at 31.12.2019	**7,412**	**0**	**0**	**1,515**	**3,229**	**12,156**
Net value						
as at 1.01.2019	**12,825**	**16,621**	**8,464**	**10,292**	**7,346**	**55,548**
as at 01.01.2019 after adoption of IFRS 16	**12,825**	**16,621**	**8,464**	**12,041**	**7,346**	**57,297**
as at 31.12.2019	**12,865**	**15,137**	**6,740**	**12,014**	**5,736**	**52,492**

** measurement of the acquired perpetual usufruct right of land for the purpose of IFRS 16. The total value of future conditional perpetual usufruct fees land use as at 31.12.2019 amounts to PLN 2,374 thousand and is presented in the table above under Other intangible assets.*

Goodwill

Important estimates and assumptions

In accordance with IAS 36, Selena Group carries out goodwill 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.

Based on an analysis of the models of future cash flows planned for 2021-2025 for the cash generating units (CGUs) corresponding to the specified companies, no need for a goodwill impairment was identified. Due to materiality, Note 6.2.5 presents the assumptions regarding an impairment test for the goodwill arising from acquisition of Uniflex S.R.L. and Selena CA (merger with a subsidiary TOO Big Elit in 2019).

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	As at 31.12.2020	As at 31.12.2019
Uniflex (Italy)	5,844	5,393
Oligo (Poland)	18	18
Tytan EOS (Poland)	874	874
Vostok (Russia)	1,292	1,578
Matizol (Poland)	715	715
Selena CA (Kazakhstan – ECC division) *	3,791	4,287
Total	**12,534**	**12,865**

* On 18 November 2019, Selena CA L.L.P. merged (as the acquiring company) with TOO Big Elit (the acquired company).

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

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Goodwill arising on consolidation at the beginning of the period	**12,865**	**12,825**
FX differences arising on goodwill translation	-331	40
Total carrying amount at the end of the period	**12,534**	**12,865**

R&D expenditure

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

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
R&D expenditure reflected in the profit and loss account	16,911	14,701

6.2.4 Other long term non-financial assets

In June 2009, Selena Nantong Building Materials Co., Ltd. (subsidiary) entered into a 50-year leasehold agreement for land. 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.

6.2.5 Impairment of non-current assets

Important estimates and assumptions

Selena Group carries out impairment tests for tangible and intangible assets with a specified life (except goodwill), with such tests being undertaken only where internal or external indications of impairment exist.

Impairment tests for fixed assets may use the method of discounted cash flows for the given CGU. In such as case, business assumptions and variables must be used such 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 subsidiaries, profitability forecasts) and external sources (publicly available macroeconomic and microeconomic data).

Despite the Covid-19 pandemic in 2020, no significant deviations from the business plans implemented in the companies operating in China and Romania were identified. For this reason, a decision was made not to test the companies' non-current asset for impairment as at 31 December 2020.

In addition, the Group did not identify any indicators that would point to the need to conduct tests for impairment of non-current assets in other subsidiaries

Assumptions of impairment and sensitivity tests of the cash flow models

Selected assumptions adopted for testing goodwill are presented in the table below.

Cash Generating Unit	Uniflex	Selena CA
Assets tested	goodwill	goodwill
WACC before tax	9.5%	16.3%
Residual growth rate	-	2.0%
Impairment	none	none
Model sensitivity – impairment amount at (PLN '000):		
WACC before tax increased by 1 p.p.	*no allowance*	*no allowance*
residual growth rate reduced by 1 p.p.	*no allowance*	*no allowance*
EBIT margin reduced by 1 p.p.	*no allowance*	*no allowance*

6.2.6 Investments accounted for using the equity method

As at 31 December 2020, 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 31.12.2020	Net value of the shareholding As at 31.12.2019
Hamil - Selena Co. Ltd	2001	30%	1,317	6,064	5,844
House Selena Trading Company Ltd.	2017	40%	110	110	110
Net value of shares				**6,174**	**5,954**

Key data on Hamil – Selena Co. Ltd.:

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Revenue from sales	76,022	82,263
Net profit	7,175	8,464
Assets	84,457	73,579
Liabilities	27,150	21,550

In 2020, Selena S.A., which is the owner of shares in the associated entity Hamil - Selena Co. Ltd., acquired from the company the right to dividend of PLN 1,473 thousand (EUR 319 thousand). The change in the value of shares in Hamil - Selena Co. Ltd. was affected only by foreign exchange differences from translation of the foreign affiliate.

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

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Revenue from sales	26,863	28,342
Net loss	-2,144	-1,865
Assets	7,778	5,491
Liabilities	14,521	9,829

Selena Group does not participate in the loss of the joint venture House Selena Trading Company Ltd. in accordance with the terms of the agreement. The change in the value of shares in House Selena Trading Company Ltd was affected only by foreign exchange differences from translation of the foreign affiliate.

6.2.7 Inventories

Accounting policies

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.

Expired and defective inventories
Where inventories (materials, merchandise, finished goods) are expired or overdue, no later than at the end of the quarter in which this fact was identified, the Group's entity is required to create an impairment allowance for the value of the inventories to the net realisable value which is achievable for such inventories less selling costs.
If the inventories are not suitable for sale at all, the company should create a provision for the cost of its disposal.

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

Slow-moving inventories
If the particular index does not move or moves slowly, an impairment allowance is created for the value of the inventory at the end of each quarter.

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Raw materials	65,729	46,244
Work in progress	4,762	3,222
Finished goods	103,930	87,266
Goods for resale	18,249	13,453
Total inventories, net	**192,670**	**150,185**
Impairment allowance on inventories	6,209	3,886
Total inventories, gross	**198,879**	**154,071**

Changes in the impairment allowance on inventories are presented in the table below.

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Impairment allowance on inventories at the beginning of the period	**3,886**	**5,877**
Recognition of impairment allowance on inventories	3,865	1,845
Reversal of impairment allowance on inventories	-1,300	-734
Utilisation of impairment allowance on inventories	-277	-3,084
FX differences arising on translation	35	-18
Impairment allowance on inventories at the end of the period	**6,209**	**3,886**

6.2.8 Other short-term non-financial assets

The table below shows a specification of other short-term net non-financial assets as at the balance sheet date.

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
VAT claimed	23,128	26,911
Prepayments for deliveries	6,914	5,986
Prepaid expenses	4,270	3,509
Other non-financial receivables	2,081	2,700
Other short-term non-financial assets	**36,393**	**39,106**

6.2.9 Provisions

Accounting policies

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 income.

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

Accounting policies

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 entity 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.

The table below shows changes in the balance of provisions.

Figures in PLN thousand	from 01.01.2020 to 31.12.2020			from 01.01.2019 to 31.12.2019		
	Provision for retirement benefits	Other provisions	Total	Provision for retirement benefits	Other provisions	Total
Long term						
Balance at the beginning of the period	**3,626**	**1,064**	**4,690**	**3,141**	**153**	**3,294**
Provisions raised	823	3,166	3,989	846	0	846
Provisions released	-395	0	-395	-371	0	-371
Provisions used	-84	0	-84	-30	0	-30
FX differences	192	-127	65	-24	4	-20
Reclassification	0	173	173	64	907	971
Balance at the end of the period	**4,162**	**4,276**	**8,438**	**3,626**	**1,064**	**4,690**
Short term						
Balance at the beginning of the period	**0**	**5,208**	**5,208**	**5**	**6,314**	**6,319**
Provisions raised	0	18,884	18,884	0	871	871
Provisions released	0	-107	-107	-5	-490	-495
Provisions used	0	-575	-575	0	-1,002	-1,002
FX differences	0	106	106	0	-102	-102
Reclassification	0	42	42	0	-383	-383
Balance at the end of the period	**0**	**23,558**	**23,558**	**0**	**5,208**	**5,208**

In 2020, a short-term provision of PLN 17.9 million was raised in relation to the dispute described in Note 8.1 to these consolidated financial statements.

In 2020, a long-term provision of PLN 3.2 million was raised for a potential additional settlement of goods and services tax (ICMS) at the subsidiary Selena Sulamericana.

6.2.10 Other financial liabilities

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

Figures in PLN thousand	As at 31.12.2020		As at 31.12.2019	
	Long-term portion	Short-term portion	Long-term portion	Short-term
Payroll liabilities	0	27,450	0	19,251
VAT payable	0	9,536	0	9,189
Other taxes and insurance payable	0	7,235	0	9,098
Prepayments for deliveries	0	2,068	0	1,955
Accrued expenses	0	761	0	247
Deferred income	1,411	3,717	1,598	4,170
Total other non-financial liabilities	**1,411**	**50,767**	**1,598**	**43,910**

6.3. Equity

6.3.1 Registered capital

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.

Shareholder rights

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

Major shareholders

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

Shareholder	Share type	Number of shares acquired	Share in registered capital	Number of votes	Share in votes at the General Meeting
Syrius Investments S.a.r.l.*	Registered preference shares	4,000,000	17.52%	8,000,000	29.81%
	Bearer shares	13,813,000	60.49%	13,813,000	51.48%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A. **	Bearer shares	1,857,004	8.13%	1,857,004	6.92%

** entity controlled by Krzysztof Domarecki*
*** as at 22 October 2020, based on data from KDPW*

6.3.2 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**

6.3.3 Non-controlling interests

The table below shows changes in non-controlling interests.

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
As at 1 January 2020	727	557
a) increase	**151**	**181**
– profit for the financial year	*112*	*181*
– FX differences on translation of a foreign affiliate	*39*	*0*
b) decrease	**6**	**11**
– FX differences on translation of a foreign affiliate	*0*	*5*
– payment of dividend	*6*	*6*
As at 31 December 2020	**872**	**727**

6.3.4 FX differences on translation of a foreign affiliate

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
FX differences arising on translation of the foreign associate	-7,113	3,331
FX differences on measurement of investments in the net assets of the foreign associate	-3,575	-2,512
Income tax	-1,032	-504
Total	**-11,720**	**315**

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
FX differences arising on translation of the foreign associate	1,399	8,552
FX differences on measurement of investments in the net assets of the foreign associate	-44,911	-41,337
Income tax	357	1,389
Total	**-43,155**	**-31,396**

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 standalone accounts of the individual companies, are removed from financial income (or costs as the case might be) at the consolidated level and are presented in the statement of comprehensive income.

Risk

7. Risk

7.1 Important estimates and assumptions

Preparation of financial statements in accordance with IFRS approved by the EU requires making accounting estimates and assumptions with regard to the future events or uncertainties existing at the balance sheet date. The Management Board of the Parent Company also uses a professional judgment when applying the Group's accounting policy. The estimates and assumptions give rise to the risk of possible corrections to the balance sheet assets and equity & liabilities in the next reporting periods. Details on each of these estimates and judgments are included in other notes alongside information on the calculation basis for each item in the financial statements that is affected by this information.

The adopted estimates, assumptions and judgments include in particular:
- Impairment of financial assets (Note 7.2.3);
- Impairment of non-financial assets (Note 6.2.5);
- Estimated useful life of tangible and intangible assets (6.2.1; 6.2.3);
- Possibility to realise the deferred tax assets (Note 5);
- Uncertainty of estimates and judgments made in relation to lease accounting (Note 6.1.5; 6.2.2);
- Estimation of the pension provision and provisions for cases disputed in court (Note 6.2.9).

In 2020, no significant changes were made to the assumption areas and methods. The business and macroeconomic assumptions underlying the estimates and judgements are updated on an ongoing basis depending on changes in the environment of the Parent Company and the Group companies, and business plans and projections.

7.2 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:
- Currency risk;
- Interest rate risk;
- Credit risk;
- Liquidity risk;
- Other (specific risks).

The table below presents the Management Board's approach to individual types of financial risk.

Risk	Exposure	Measurement	Mitigation
Market risk – currency rates	Future commercial transactions Financial assets and liabilities not denominated in the national currency (PLN)	Cash flow projections Sensitivity analysis	Forward transactions Multi-currency credit lines
Market risk – interest rates	Bank and other loans Cash	Sensitivity analysis	Short-term exposure
Credit risk	Cash and cash equivalents Other short-term financial assets (cheques) Trade receivables and other financial receivables Shares in other entities	Exposure aging Use of internal and external information to assess the probability of default	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Bank and other loans Lease liabilities Other financial liabilities Trade liabilities	Cash flow projections	Availability of committed credit lines

7.2.1 Currency risk

For the purpose of risk analysis, currency risk is defined as a risk of volatility of the future cash flows denominated in other currencies than the Selena 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 Group's exposure to currency risk includes current assets and liabilities exposed to fluctuations in the following currencies: EUR, USD, HUF, UAH, CZK, BRL, BGN, CNY, KRW, GBP, CHF, CAD, BYN, RUB, RON, KZT, TRY. Selena Group uses selected financial instruments (mainly forward transactions) to hedge the value of future cash flows denominated in foreign currencies and the net asset value of its foreign operations. 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. Selena Group also hedges currency exposure by using multi-currency credit lines and external financing in the currencies of local subsidiaries.

The table below shows the hypothetical impact (expressed in PLN) on the Group's exposure in foreign currencies if at the end of the year the currency rates depreciated/ appreciated to the level shown in the table (FX rate sensitivity levels were adopted on the basis of their actual variability in 2018–2020).

Exposure currency converted into PLN thousand	as at 31.12.2020 EUR	RUB	RON	USD	KZT	TRY	Other	PLN	TOTAL
Trade receivables	125,030	35,879	5,997	9,015	6,496	4,429	25,804	39,257	251,907
Cash	19,826	139	2,104	3,408	2,029	5,777	5,449	16,272	55,004
Other financial assets	1,308	133	64	14	0	9,798	1,830	42,494	55,641
	146,164	**36,151**	**8,165**	**12,437**	**8,525**	**20,004**	**33,083**	**98,023**	**362,552**
Trade liabilities	129,618	666	2,131	2,203	239	5,582	9,566	37,332	187,337
Bank loans	26,214	12,045	0	2,276	0	6	3,207	6,004	49,752
Leases	10,092	0	0	182	109	1	3,300	18,770	32,454
Other financial liabilities	1,095	4	0	15	0	0	515	3,348	4,977
	167,019	**12,715**	**2,131**	**4,676**	**348**	**5,589**	**16,588**	**65,454**	**274,520**
Net exposure	**-20,855**	**23,436**	**6,034**	**7,761**	**8,177**	**14,415**	**16,495**	**32,569**	**88,032**

impact of rate changes at the following rates:						
EUR/PLN: 4.4747/ RUB/PLN: 0.0455 / RON/PLN: 0.9213 / USD/PLN: 3.5867 / KZT/PLN: 0.0085 / TRY/PLN: 0.4067	633	-2,152	-169	-355	-249	-2,757
EUR/PLN: 4.76180/ RUB/PLN: 0.0546 / RON/PLN: 0.9762 / USD/PLN: 4.142 / KZT/PLN: 0.0099 / TRY/PLN: 0.5827	-664	2,105	180	792	1,057	2,287

Exposure currency converted into PLN thousand	as at 31.12.2019 EUR	RUB	RON	USD	KZT	TRY	Other	PLN	TOTAL
Trade receivables	102,063	46,536	4,229	6,334	5,873	2,418	25,891	44,548	237,892
Cash	23,202	182	2,545	3,939	2,851	9,378	6,988	36,568	85,653
Other financial assets	1,696	202	68	219	0	5,269	1,415	540	9,409
	126,961	**46,920**	**6,842**	**10,492**	**8,724**	**17,065**	**34,294**	**81,656**	**332,954**
Trade liabilities	100,796	967	1,634	1,561	556	2,352	8,775	27,345	143,986
Bank loans	45,178	19,816	0	11,400	0	11	2,734	24,768	103,907
Leases	21,650	0	0	237	636	133	490	14,583	37,729
Other financial liabilities	13,689	133	0	0	0	135	650	2,343	16,950
	181,313	**20,916**	**1,634**	**13,198**	**1,192**	**2,631**	**12,649**	**69,039**	**302,572**
Net exposure	**-54,352**	**26,004**	**5,208**	**-2,706**	**7,532**	**14,434**	**21,645**	**12,617**	**30,382**

impact of rate changes at the following rates:						
EUR/PLN: 4.1705/ RUB/PLN: 0.0559 / RON/PLN: 0.8642 / USD/PLN: 3.6141 / KZT/PLN: 0.0095 / TRY/PLN: 0.5317	1,123	-2,213	-152	131	-316	-2,405
EUR/PLN: 4.3860/ RUB/PLN: 0.0656 / RON/PLN: 0.9197 / USD/PLN: 4.2169 / KZT/PLN: 0.0113 / TRY/PLN: 0.7334	-1,627	1,915	173	-299	1,051	2,158

2020 saw a favorable trend in relation to the EUR/PLN currency pair, which resulted in positive exchange rate differences (the EUR/PLN exchange rate increased by 8% year-on-year), coupled with high volatility of other emerging market currency pairs, notably an increase in the EUR/BRL and EUR/RUB exchange rates, of 41% and by 32%, respectively, in the period from 1 January to 31 December 2020. Selena Group hedges a part of its currency exposure relating to trade receivables and liabilities by using multi-currency credit lines and applying the Financial Risk Management, in particular by entering into forward transactions. In 2020, the Company hedged its expected cash flows with FX forwards and other financial instruments. The Company uses such financial instruments solely to hedge its FX risk and does not use them for speculative purposes. The Company does not use hedge accounting within the meaning of IFRS 9.

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	As at 31.12.2020	As at 31.12.2019
PLN	variable	WIBOR		6,004	24,768
EUR	variable	EURIBOR		7,379	33,592
	fixed	-		18,835	11,615
USD	variable	LIBOR		2,276	11,400
RUB	variable	Different		12,045	19,816
CNY	variable	Different		2,853	2,709
Other	Different	Different		360	7
Total				**49,752**	**103,907**

7.2.2 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-bearing 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.

As at 31.12.2020 Figures in PLN thousand	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total
Fixed interest rate					
Lease liabilities	7,974	11,327	0	0	**19,301**
Bank loans	5,379	13,455	0	0	**18,834**
Loans granted	81	42,000	0	0	**42,081**
Bank deposits	8	0	0	0	**8**
Variable interest rate					
Lease liabilities	5,418	5,572	492	1,671	**13,153**
Bank loans	30,266	652	0	0	**30,918**
Liabilities on account of prepaid trade receivables	226	0	0	0	**226**
Bank deposits	50	0	0	0	**50**
Cash in bank	50,491	0	0	0	**50,491**

As at 31.12.2019 Figures in PLN thousand	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total
Fixed interest rate					
Finance lease obligations	6,520	3,521	351	754	**11,146**
Bank loans	4,870	2,892	3,849	4	**11,615**
Other loans received	0	0	0	0	**0**
Loans granted	5	0	0	0	**5**
Bank deposits	9,594	0	0	0	**9,594**
Variable interest rate					
Finance lease obligations	7,730	14,386	2,934	1,533	**26,583**
Bank loans	29,522	62,770	0	0	**92,292**
Liabilities on account of prepaid trade receivables	12,725	0	0	0	**12,725**
Bank deposits	3,320	0	0	0	**3,320**
Cash in bank	64,615	0	0	0	**64,615**

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 2020 (and 31 December 2019). The table includes only the currencies and instruments for which the Group's exposure to fixed-rate instruments is significant.

Figures in PLN thousand	2020			2019		
	PLN	EUR	USD	PLN	EUR	USD
Cash	16,272	19,826	3,408	36,568	23,202	3,939
Bank loans received	-6,004	-26,214	-2,276	-24,768	-33,592	-11,400
Net exposure	**10,268**	**-6,388**	**1,132**	**11,800**	**-10,390**	**-7,461**
Impact * of an increase ** in interest rate*** by 1 pp	103	-64	11	118	-104	-75

* 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 fluctuations of future cash flows from interest.

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

7.2.3 Credit risk

Due the nature and size of its business, the Group's credit risk is subject to regular analysis for all the subsidiaries forming part of the Group. Selena 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. Selena Group regularly monitors 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.

Important estimates and assumptions

In accordance with IFRS 9, at each balance sheet date, Selena Group assesses the expected credit losses whether or not there are any indications of impairment.

Selena Group uses the following models of making impairment allowances for individual items of financial assets:
• Internal receivables – Selena Group uses the model of expected credit losses over the life of the receivables to determine their impairment allowances. As part of the model, an individual analysis is made (for receivables from significant external customers) and a collective analysis (for other external customers due to the similar characteristics of credit risk). Additionally, balances of receivables constituting the basis for calculating impairment allowances are reduced by the amounts of insured receivables (no allowances are made for insured receivables).

A collective analysis of exposures is made using a simplified matrix of allowances for individual age ranges based on expected credit losses over the entire life of the receivables (based on default ratios determined using historical data for the last 4–5 years. We have not identified any future factors that would materially affect the level of default rates. The expected credit loss is calculated when the receivable is recognised in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days in arrears. For receivables analysed on a collective basis, all items past due by over 360 days are qualified to impairment grade 3, and are covered by a 100% write-down.

For receivables from significant external customers, the Group performs an individual analysis of all exposures, assigning them to one of three stages:
i) Stage 1 – where credit risk has not increased significantly since initial recognition and where 12-month expected credit loss (ECL) is recognised.
ii) Stage 2 – where credit risk has increased significantly since initial recognition and where lifetime ECL is recognised.
iii) Stage 3 – where impairment has been identified.

Exposures classified to stage 1 or 2 have impairment allowances determined based on an individually set rating, repayment profile and assessment of recovery from collateral.
For exposures classified to stage 3, the amount of impairment allowance is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future losses on account of uncollected receivables), discounted using the effective interest rate.

Impairment allowances are reversed when the present value of the estimated future cash flows is higher than the net assets employed, and a positive balance of payments with the entity concerned is expected to be achieved within the next 12 months.

Trade receivables and other financial receivables presented in the consolidated statement of financial position have been classified to the following stages of the impairment model:

	As at 31.12.2020			As at 31.12.2019		
Figures in PLN thousand	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**
Gross trade receivables	256,025	19,646	**275,671**	240,901	22,506	**263,407**
Expected credit loss on trade receivables	-6,544	-17,220	**-23,764**	-4,073	-21,443	**-25,516**
Other gross financial receivables	9,782	5,222	**15,004**	5,268	5,627	**10,895**
Expected credit loss on other financial receivables	0	-2,336	**-2,336**	0	-2,716	**-2,716**
Carrying amount of trade receivables and other financial receivables	**259,263**	**5,312**	**264,575**	**242,096**	**3,974**	**246,070**

The table below shows impairment allowances on trade receivables in individual age ranges. They were calculated using a simplified matrix of expected credit losses based on default rates.

Days in arrears As at 31.12.2020 (Figures in PLN thousand)	Trade receivables measured using the simplified model	Default rate	Expected credit losses
Up-to-date	156,660	0.22%	343
< 30	10,905	1.35%	147
31 – 60	3,626	1.88%	68
61 – 90	3,535	2.89%	102
91 – 120	1,676	3.10%	52
121 – 180	2,537	5.12%	130
181-360	4,786	53.43%	2,557
>361	10,059	100.00%	10,059
Total	**193,784**		**13,458**

Days in arrears As at 31.12.2019 (Figures in PLN thousand)	Trade receivables measured using the simplified model	Default rate	Expected credit losses
Up-to-date	137,806	0.30%	409
< 30	13,133	1.19%	156
31 – 60	2,856	6.16%	176
61 – 90	650	26.46%	172
91 – 120	283	22.97%	65
121 – 180	465	32.26%	150
181-360	400	71.00%	284
>361	12,531	100.00%	12,531
Total	**168,124**		**13,943**

Changes in impairment allowances on trade and other receivables alongside comparative data are presented in the table below:

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Impairment in respect of expected credit loss at the beginning of the period	**28,232**	**34,040**
trade receivables	***25,516***	***30,246***
other financial receivables	***2,716***	***3,794***
Created/ reversed (-)	1,537	2,929
trade receivables	*1,592*	*2,216*
other financial receivables	*-55*	*713*
Utilised	-3,566	-8,476
trade receivables	*-3,049*	*-6,305*
other financial receivables	*-517*	*-2,171*
FX differences arising on conversion of foreign affiliates	-103	-323
trade receivables	*-295*	*-506*
other financial receivables	*192*	*183*
Others, including in relation to:	0	62
trade receivables	*0*	*-135*
other financial receivables	*0*	*197*
Impairment in respect of expected credit loss at the end of the period	**26,100**	**28,232**
trade receivables	***23,764***	***25,516***
other financial receivables	***2,336***	***2,716***

As part of the individual analysis of loans granted to related entities in 2020 (PLN 42 million), no need to recognise any impairment allowance as at 31 December 2020 was identified. The loans were secured with a registered promissory note and the borrower's debt portfolio.

Details on the assets held as security for loans are provided in Note 6.1.3. 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 allowances, which are reflected in the carrying amounts of the assets.

Cash is deposited with financial institutions in the form of short-term deposits. Credit risk associated with cash invested is low in the Management Board's opinion. 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 2020, Selena Group had unutilised credit lines of PLN 307.2 million. As at 31 December 2019: PLN 249.6 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).

In the case of cash and cash equivalents, the Management Board of the Parent Company believes that the credit risk is low (stage 1 of the impairment model). Over 90% of cash on bank accounts is held by Selena FM Group with financial institutions that have high, medium-high and medium credit rating and which have appropriate equity as well as a strong and stable market position. The table below presents the level of cash concentration on bank accounts, taking into account the credit rating of financial institutions.

Rating level		as at 31.12.2020	as at 31.12.2019
Medium-high	from A+ to A- by S & P and Fitch and from A1 to A3 by Moody's	75%	78%
Medium	from BBB+ to BBB- by S&P and Fitch and from Baa1 to Baa3 by Moody's	19%	16%
Low	from Ba2 to Ca by S & P and Fitch and from BB to CC by Moody's	6%	6%

7.2.4 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 leases.

As part of its role of central coordination of the Group's finance management, the Parent Company grants loans to its subsidiaries to ensure current financing and liquidity for them (the effect of such transactions is eliminated from the Group's consolidated accounts). Details of such transactions are presented in the standalone financial statements of the Parent Company for 2020. The Parent Company provides financing to subsidiaries based on the Group's liquidity forecasts (including unused credit limits as well as cash and cash equivalents). As a rule, this is done locally by subsidiaries, in accordance with the practice and limits set by the Group. These limits vary from one location to another to reflect the liquidity of the market in which the subsidiary operates. In addition, the Group's liquidity management policy includes preparing cash flow projections for major currencies and taking into account the level of liquid assets necessary to cover the cash flows, monitoring balance sheet liquidity ratios in terms of internal and external regulatory requirements, and maintaining debt plans.

Information on maturity dates of bank loans and lease liabilities is provided in Notes 6.1.3 and 6.1.5, respectively.

7.2.5 Other risks

Selena 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). The Group applies a sales management model and a partial hedging of FX transactions designed to mitigate the above risks.

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, Selena Group is exposed to tax risks. These risks are described in Note 1.11 to the consolidated Management Board's report for 2020.

7.3 Capital 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 Parent 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 Parent Company may use the following instruments:

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

As part of capital management, the Management Board of the Parent Company monitors the debt level by means of the gearing ratio, which is calculated as net debt to total equity + net debt. Net debt includes bank and other loans, lease liabilities and prepaid trade receivables, less cash and cash equivalents. Equity includes the equity attributable to the shareholders of the Parent. Selena Group aims to maintain the ratio at below 20%. At the end of 2020, the ratio significantly improved compared to 31 December 2019, due to a significant decrease in borrowings and a major decline in prepaid trade receivables.

Figures in PLN thousand	As at 31.12.2020	As at 31.12.2019
Bank and other loans	49,752	103,907
Lease liabilities	32,454	37,729
Liabilities on account of prepaid trade receivables	226	12,725
Less cash and cash equivalents	-55,004	-85,653
Net debt	**27,428**	**68,708**
Equity attributed to the shareholders of the parent	522,792	458,315
Equity and net debt	**550,220**	**527,023**
Gearing (net debt / equity + net debt)	**5%**	**13%**

7.3.1 Profit distribution for 2019

On 10 June 2020, the Annual General Meeting of Selena FM S.A. adopted a resolution to distribute the Company's net profit for 2019 in the amount of PLN 52,633,039.31 as follows: PLN 9,775,999.90 to cover losses carried forward from previous years; the remainder of PLN 42,887,039.41 to be transferred entirely to the Company's supplementary capital.

Other information

8. Other information

8.1 Contingent liabilities

Intragroup guarantees

Accounting policies

The entity discloses contingent liabilities at the end of the reporting period if:
– it has a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
– it has a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

The entity does not disclose a contingent liability if there is a marginal probability of an outflow of resources embodying economic benefits.

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 as a result of settlement of the initially recognised amount during the period of the guarantee's validity, and
- an amount estimated in accordance with the expected credit loss model under IFRS 9.

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. Such guarantees given to the subsidiaries by Selena FM S.A. were described in detail in Note 7.1 of the standalone financial statements of Selena FM S.A. for 2020. As at 31 December 2020, the result of the valuation of these guarantees according to IFRS 9 is immaterial.

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.

In 2020, Selena Iberia posted a tax income that allowed it to use the tax losses and credits from previous years. The maximum nominal value of contingent liabilities not included in the settlement, taking into account liabilities recognised in the statement of financial position as at 31 December 2020, is EUR 1.16 million.

Court disputes

Dispute between Carina Silicones sp. z o.o. and Bank Millennium S.A.

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 10,256 thousand. 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.

At the hearing on 5 February 2021, after evidence-taking, the hearing of witnesses and after the attorneys made statements on the case, the District Court decided to close the court proceedings. On 5 March 2021, the court issued a judgment in the first instance, accepting the Bank's claim.

The defendant does not agree with the decision and intends to appeal, fully upholding its previous position that the claim is unfounded.

At the same time, in accordance with the prudence principle, the Company's Management Board decided to raise a provision for the value of the claim together with statutory interest of PLN 17.9 million.

Administrative proceedings between Selena S.A. and the Customers Office

Selena S.A. (the "Company") 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 mesh fabrics of glass fibres from Taiwan in 2011–2012.

Based on the report drafted by the European Anti-Fraud Office (OLAF) relating to the investigation held in Taiwan regarding the suspected circumvention of the anti-dumping duty imposed on the imports mesh fabrics, proceedings were initiated against Selena S.A. to determine the amount of the anti-dumping duty (the proceedings were initiated by the Head of the Customs Office in Gdynia on 24 February 2014, while on 27 May 2014 the Head of the Customs Office in Gdańsk initiated another 37 proceedings). As a result of these proceedings, a customs liability in the total amount of PLN 7,993 thousand was assessed for the Company.

Selena S.A. disagreed with the opinion of the customs authorities, and challenged it both before the customs authorities of the second instance and through complaints submitted to the Provincial Administrative Court (WSA) in Gdańsk. Despite the initially favorable decisions taken by the WSA, on 15 December 2016, the WSA in Gdańsk issued the first in a series of decisions unfavourable for the Company. Currently, in 19 cases in which the WSA ruled against Selena S.A., the Company filed cassation appeals to the Supreme Administrative Court. At the same time, the WSA decided to suspend a group of 13 other proceedings.

Regardless of the status of cases before the WSA in Gdańsk, so far Selena S.A. has paid about PLN 7.6 million in the customs liabilities (including in relation to the cases which have been suspended) and about PLN 700 thousand in respect of late interest.

8.2 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 (2020 and 2019, respectively), while the receivables and liabilities are presented as at 31 December 2020 and 31 December 2019.

Figures in PLN thousand	Period	Sales	Purchases	Receivables	Liabilities	Loans granted
Associates	2020	25,194	243	7,609	212	0
	2019	26,116	82	7,548	36	0
Subsidiaries of the ultimate controlling shareholder*	2020	167	0	3	0	42,081
	2019	875	109	142	0	0
Key management personnel**	2020	0	516	0	0	0
	2019	0	707	0	0	0
TOTAL	**2020**	**25,361**	**759**	**7,612**	**212**	**42,081**
	2019	**26,991**	**898**	**7,690**	**36**	**0**

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

*** the item includes members of the Management Board and Supervisory Board, their spouses, siblings, ascendants, descendants and other persons having close links with them.*

Note 7.3.1 contains information on profit distribution in 2019.
Information on other remuneration for key management personnel not included in the table above is presented in Note 8.4.

8.3 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:	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Balance sheet change in receivables, including	**-53,432**	**-19,512**
change in the balance of trade receivables	*-14,015*	*-19,982*
change in the balance of CIT	*-433*	*1,131*
change in the balance of other financial assets	*-41,697*	*-590*
change in the balance of other non-financial assets	*2,713*	*-71*
Change in income tax receivables	433	-1,131
Change in the balance of investment receivables and prepayments for investments	281	-958
Elimination of granted loans and interest accrued	42,076	0
Return of a loan guarantee	-292	0
Exchange differences related to checks received as settlement of receivables	-7,646	-5,087
FX differences arising on translation of the foreign associate	0	4,260
Change in the balance of receivables in the statement of cash flows	**-18,580**	**-22,428**

Inventories:	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Balance sheet change in inventories	**-42,484**	**30,731**
FX differences arising on translation of the foreign associate	0	75
Change in the balance of inventories in the statement of cash flows	**-42,484**	**30,806**

Liabilities:	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Balance sheet change in liabilities	**-9,425**	**19,378**
Change in the balance of loans	54,155	41,480
Change in the balance of lease obligations	5,275	-26,516
Change in the balance of income tax obligations	-7,364	-6,059
Change in the balance of investment obligations	-1,044	194
Change in the balance of the investment loan	-292	0
Exercise of the option to buy minority shares in a subsidiary	0	5,789
Elimination of changes in the balance of unearned revenues on account of government subsidy	640	37
Elimination of changes in the balance of liabilities on account of concluded currency transactions	-1,409	0
FX differences arising on translation of a foreign affiliate and other	0	777
Change in the balance of liabilities in the statement of cash flows	**40,536**	**35,080**

Other in operating activities	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Change in the balance of unearned revenues on account of government subsidy	-696	1,715
Outflows from FX transactions (Selena FM)	1,784	-1,670
Total other	**1,088**	**45**

Other in investing activities	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Return of interest-bearing bank pledge	0	106
Total other	**0**	**106**

Other in financing activities	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Inflow of funds from subsidies for investment expenditure	54	130
Return of a loan guarantee	293	0
Total other	**347**	**130**

8.4 Remuneration of the key management personnel of the Parent Company

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

MANAGEMENT BOARD Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Short-term employment benefits, including bonuses (remuneration and deductions)	4,511	2,738
Remuneration for services provided to subsidiaries	516	626
Total	**5,027**	**3,364**

SUPERVISORY BOARD Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Short-term employment benefits, including bonuses (remuneration and deductions)	757	521
Remuneration for services provided to subsidiaries	0	100
Total	**757**	**621**

Management Board members receive fixed and variable (bonus-based) remuneration. A decision on bonus payment for 2020 will be taken by the Supervisory Board.

8.5 Auditor’s fee

Remuneration of the auditor of the Parent Company’s standalone financial statements and the Selena FM Group’s consolidated financial statements as well as standalone financial statements of selected subsidiaries for 2020 and 2019 is presented in the table below.

Figures in PLN thousand	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Audit of the annual financial statements	728	697
Review of the interim financial statements	95	95
Other permitted assurance services	51	15
Total	**874**	**807**

8.6 Employment structure

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

Average employment by full-time equivalents	from 01.01.2020 to 31.12.2020	from 01.01.2019 to 31.12.2019
Administration	118	136
Sales department	832	811
Production division	714	692
Others	178	168
Total	**1,842**	**1,806**

8.7 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 above, took place that might materially affect the financial data presented in this consolidated report.

Chief Executive Officer

Jacek Michalak

Chief Commercial Officer

Sławomir Majchrowski

Chief Marketing Officer

Christian Dölle

Chief Operating Officer

Marek Tomanek