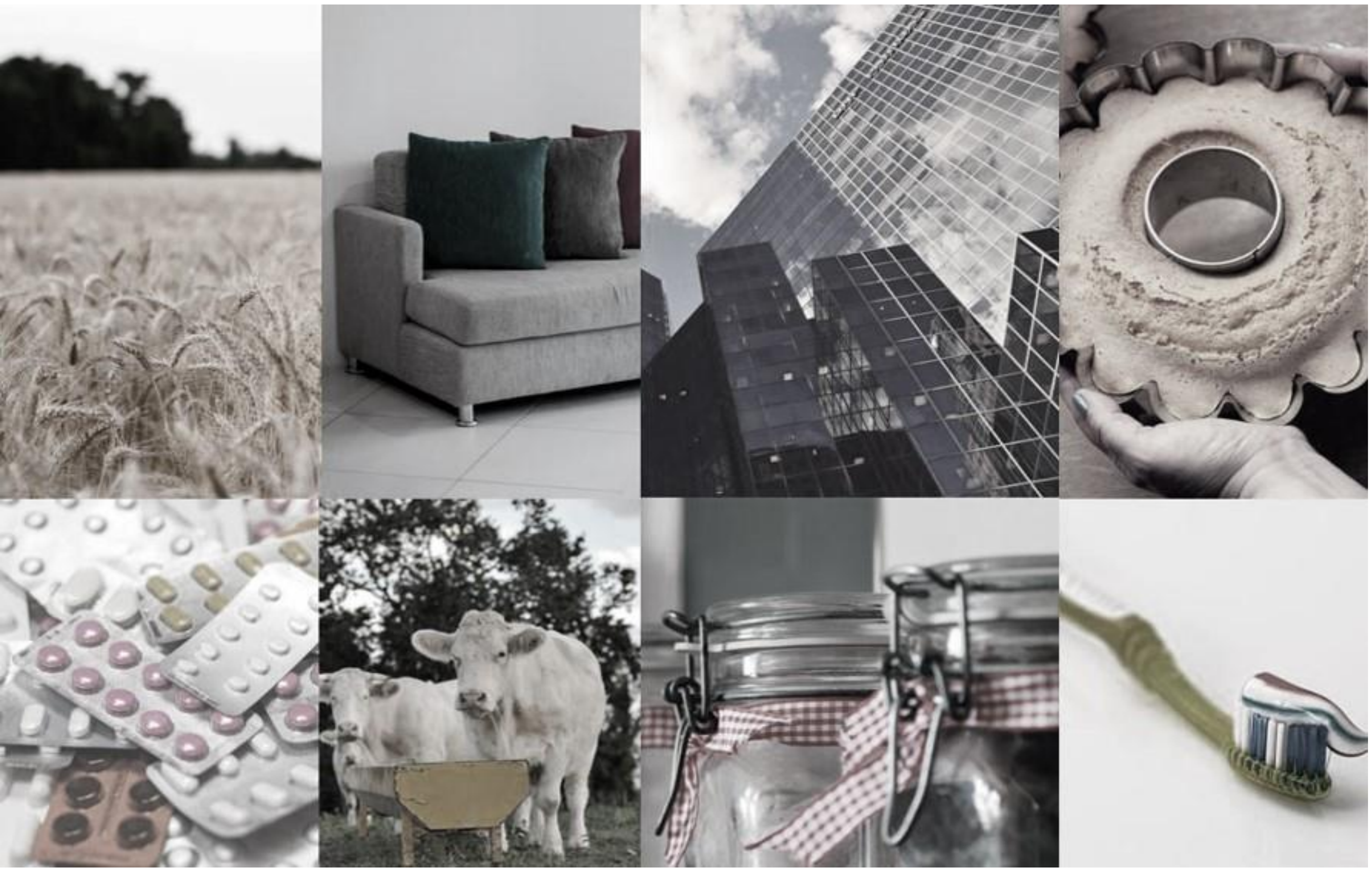
FINANCIAL STATEMENTS

of CIECH S.A. for 2018



CIECH S.A. – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN: 12 months ended 31.12.2018	in thousand PLN: 12 months ended 31.12.2017	in thousand EUR: 12 months ended 31.12.2018	in thousand EUR: 12 months ended 31.12.2017
Sales revenues	2,418,534	2,365,764	566,813	557,345
Operating profit	112,279	242,213	26,314	57,062
Profit before tax	334,013	301,471	78,280	71,023
Net profit for the period	270,612	243,907	63,421	57,462
Other comprehensive income net of tax	(4,508)	8,355	(1,057)	1,968
Total comprehensive income	266,104	252,262	62,365	59,430
Cash flows from operating activities	64,232	300,288	15,054	70,744
Cash flows from investment activities	(268,087)	(131,486)	(62,829)	(30,977)
Cash flows from financial activities	(116,765)	(137,479)	(27,365)	(32,388)
Total net cash flows	(320,620)	31,323	(75,140)	7,379
Earnings (loss) per ordinary share (in PLN/EUR)	5.13	4.63	1.20	1.09
	as at 31.12.2018	as at 31.12.2017	as at 31.12.2018	as at 31.12.2017
Total assets	3,927,454	3,652,664	913,362	875,749
Total non-current liabilities	1,393,685	1,172,446	324,113	281,101
Total current liabilities	1,131,068	931,190	263,039	223,259
Total equity	1,402,701	1,549,028	326,210	371,389
Share capital	287,614	287,614	66,887	68,957

The above selected financial data were converted into PLN in accordance with the following principles:

- items in the statement of financial position were converted using the average exchange rate determined by the National Bank of Poland on the last day of the reporting period,
- items in the statement of profit or loss, statement of other comprehensive income and statement of cash flows were converted using the exchange rate constituting the arithmetic mean of rates determined by the National Bank of Poland on the last day of each calendar month of the reporting period.

as at 31.12.2018	as at 31.12.2017	12 months ended 31.12.2018	12 months ended 31.12.2017
1 EUR = 4.3000 PLN	1 EUR = 4.1709 PLN	1 EUR = 4.2669 PLN	1 EUR = 4.2447 PLN

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STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	note	01.01.-31.12.2018	01.01.-31.12.2017
CONTINUING OPERATIONS			
Sales revenues	*3.1*	**2,418,534**	**2,365,764**
Cost of sales	*3.2*	(2,029,456)	(1,863,346)
Gross profit on sales		**389,078**	**502,418**
Other operating income	*3.4*	4,154	4,461
Selling costs	*3.2*	(221,224)	(207,112)
General and administrative expenses	*3.2*	(55,688)	(55,327)
Other operating expenses	*3.4*	(4,041)	(2,227)
Operating profit		**112,279**	**242,213**
Financial income	*3.5*	343,552	342,793
Financial expenses	*3.5*	(121,818)	(283,535)
Net financial income/(expenses)		**221,734**	**59,258**
Profit before tax		**334,013**	**301,471**
Income tax	*4.1, 4.2*	(63,401)	(57,564)
Net profit on continuing operations		**270,612**	**243,907**
Net profit for the period		**270,612**	**243,907**
Earnings per share (in PLN):			
Basic		5.13	4.63
Diluted		5.13	4.63
Earnings per share (in PLN) from continuing operations:			
Basic		5.13	4.63
Diluted		5.13	4.63

The statement of profit or loss of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

	note	01.01.-31.12.2018	01.01.-31.12.2017
Net profit on continuing operations		**270,612**	**243,907**
Net profit for the year		**270,612**	**243,907**
Other comprehensive income before tax that may be reclassified to the statment of profit or loss	*3.6*	**(5,345)**	**10,132**
Cash flow hedge reserve	*3.6*	(5,345)	10,132
Other comprehensive income before tax that may not be reclassified to the statment of profit or loss	*3.6*	**(136)**	**(13)**
Other components of other comprehensive income	*3.6*	(136)	(13)
Income tax attributable to other comprehensive income	*4.1*	**973**	**(1,764)**
Income tax attributable to other comprehensive income that may be reclassified to the statment of profit or loss	*4.1*	947	(1,766)
Income tax attributable to other comprehensive income that may not be reclassified to the statment of profit or loss	*4.1*	26	2
Other comprehensive income net of tax		**(4,508)**	**8,355**
TOTAL COMPREHENSIVE INCOME		**266,104**	**252,262**

The statement of other comprehensive income of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	note	31.12.2018	31.12.2017
ASSETS			
Property, plant and equipment	5.1	13,551	13,880
Intangible assets	5.2	46,057	34,143
Long-term financial assets	5.3	2,339,188	1,864,137
Deferred income tax assets	4.3	25,514	40,247
Total non-current assets		**2,424,310**	**1,952,407**
Inventory	5.4	41,019	31,795
Short-term financial assets	5.6	1,006,464	1,012,304
Trade and other receivables	5.5	400,673	280,765
Cash and cash equivalents	5.7	54,988	375,393
Total current assets		**1,503,144**	**1,700,257**
Total assets		**3,927,454**	**3,652,664**
EQUITY AND LIABILITIES			
Share capital	6.2	287,614	287,614
Share premium	6.2	470,846	470,846
Cash flow hedge reserve	8.2	(1,152)	3,246
Actuarial gains		11	121
Other reserve capitals	6.2	76,199	76,199
Retained earnings		569,183	711,002
Total equity		**1,402,701**	**1,549,028**
Loans, borrowings and other debt instruments	7.1	1,333,695	1,130,482
Other non-current liabilities	7.2	59,416	41,528
Employee benefits reserve	7.5	574	436
Total non-current liabilities		**1,393,685**	**1,172,446**
Loans, borrowings and other debt instruments	7.1	493,601	413,516
Trade and other liabilities	7.3	532,895	476,443
Income tax liabilities		867	4,758
Employee benefits reserve	7.5	421	400
Other provisions	7.6	103,284	36,073
Total current liabilities		**1,131,068**	**931,190**
Total liabilities		**2,524,753**	**2,103,636**
Total equity and liabilities		**3,927,454**	**3,652,664**

The statement of financial position of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

STATEMENT OF CASH FLOWS OF CIECH S.A.

	note	01.01.-31.12.2018	01.01.-31.12.2017
Cash flows from operating activities			
Net profit for the period		**270,612**	**243,907**
Amortisation/depreciation		8,627	5,213
Recognition of impairment allowances		(309,183)	113,169
Foreign exchange (profit) /loss		7,062	(1,347)
(Profit) / loss on investment activities		82	199
(Profit) / loss on disposal of property, plant and equipment		(30)	(96)
Dividends and interest		(5,645)	(126,178)
Income tax		63,401	57,564
Change in liabilities due to loan arrangement fee		(1,702)	2,614
Valuation of derivatives		27,276	(56,877)
Other		691	-
Cash from operating activities before changes in working capital and provisions		**61,191**	**238,168**
Change in receivables	*9.1*	(13,141)	55,277
Change in inventory		(9,224)	5,655
Change in current liabilities	*9.1*	48,499	47,774
Change in provisions and employee benefits	*9.1*	23,670	(249)
Cash generated from operating activities		**110,995**	**346,625**
Interest paid		(40,856)	(43,959)
Income tax (paid)		(5,907)	(2,378)
Net cash from operating activities		**64,232**	**300,288**
Cash flows from investment activities			
Disposal of a subsidiary		69	454
Disposal of intangible assets and property, plant and equipment		36	6
Dividends received		1,678	127,874
Interest received		23,981	18,983
Proceeds from repaid borrowings		136,428	138,833
Acquisition of a subsidiary		(172,371)	(100)
Acquisition of intangible assets and property, plant and equipment		(28,607)	(15,479)
Raise capital expenditures and extra charge on capital		(8,180)	(100,500)
Borrowings paid out		(187,270)	(289,973)
Cash pooling outflows		(33,851)	(11,584)
Net cash from investment activities		**(268,087)**	**(131,486)**
Cash flows from financial activities			
Proceeds from loans and borrowings		649,072	39,000
Dividends paid to parent company		(395,249)	-
Repayment of loans and borrowings		(334,515)	(5,438)
Cash pooling outflows		(36,073)	(11,041)
Redemption of debt securities		-	(160,000)
Net cash from financial activities		**(116,765)**	**(137,479)**
Total net cash flows		**(320,620)**	**31,323**
Cash and cash equivalents as at the beginning of the period		**375,393**	**342,607**
Impact of foreign exchange differences		*215*	*1,463*
Cash and cash equivalents as at the end of the period	*5.7*	**54,988**	**375,393**

The statement of cash flows of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

	Share capital	Share premium	Cash flow hedge reserve	Other reserve capitals	Actuarial gains	Retained earnings	Total equity
note	*6.2*		*8.2*	*6.2*			
01.01.2018	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**711,002**	**1,549,028**
Opening balance adjustment due to IFRS 9	-	-	-	-	-	(17,182)	(17,182)
01.01.2018	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**693,820**	**1,531,846**
Dividend	-	-	-	-	-	(395,249)	(395,249)
Total comprehensive income for the period	**-**	**-**	**(4,398)**	-	(110)	**270,612**	**266,104**
Net profit / (loss) for the period	-	-	-	-	-	270,612	270,612
Other comprehensive income	-	-	(4,398)	-	(110)	-	(4,508)
31.12.2018	**287,614**	**470,846**	**(1,152)**	**76,199**	**11**	**569,183**	**1,402,701**
01.01.2017	**287,614**	**470,846**	**(5,120)**	**76,199**	**132**	**467,095**	**1,296,766**
Total comprehensive income for the period	**-**	**-**	**8,366**	-	(11)	**243,907**	**252,262**
Net profit / (loss) for the period	-	-	-	-	-	243,907	243,907
Other comprehensive income	-	-	8,366	-	(11)	-	8,355
31.12.2017	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**711,002**	**1,549,028**

The statement of changes in equity of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

1 GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

Company Name	**CIECH Spółka Akcyjna**
Registered office	Warsaw
Address	ul. Wspólna 62, 00-684 Warsaw
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12th Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
BDO Registry Number	000015168
Website	www.ciechgroup.com
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

CIECH S.A. is a holding company that manages and provides support services to its subsidiaries — domestic and foreign manufacturing, trade and service companies of the CIECH Group. The CIECH Group is an international, professionally managed group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world - state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development.

Key products manufactured by the CIECH Group include: sodium carbonate, sodium bicarbonate, evaporated salt, epoxy and polyester resins, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates. The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Products manufactured by the CIECH Group are also exported to overseas markets and sold mainly to customers in India, North Africa and the Middle East.

1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES

1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD

These financial statements of CIECH S.A. for the period from 1 January 2018 to 31 December 2018, including comparative data, were approved by the Management Board of CIECH S.A. on 26 March 2019.

The Management Board of CIECH S.A. represents that these separate financial statements for the current and comparable period have been prepared in compliance with International Financial Reporting Standards approved by the European Union and related interpretations issued by the European Commission in the form of Regulations (IFRS).

The Management Board of CIECH S.A. represents that to the best of its knowledge these separate financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of CIECH S.A.'s financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018 contains a true image of the Company's developments, achievements, and condition, including the description of major risks and threats.

The Management Board of CIECH S.A. represents that PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the registry No 144 kept by the National Chamber of Statutory Auditors was chosen in accordance with the binding legal regulations for the auditor of these separate financial statements. The above entity, including the certified auditors performing the audit, satisfy all the conditions required in order to issue an unbiased and independent audit report, pursuant to the applicable domestic legal regulations.

1.2.2. BASIS OF PREPARATION

On 31 January 2007, the Extraordinary General Meeting of Shareholders of CIECH S.A. adopted resolution No 4, concerning the preparation of separate financial statements in accordance with International Financial Reporting Standards as approved by the European Union. Due to the adopted resolution, since 2007 the reports of CIECH S.A. have been prepared in accordance with the IFRS using the valuation of assets and liabilities and the valuation of net result. Major accounting principles applied in the preparation of the financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods.

The financial statements of CIECH S.A. have been prepared on the historical cost basis except for financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These financial statements were prepared under the assumption that CIECH S.A. will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no facts or circumstances are known that would indicate any threat to the Company continuing as a going concern.

The financial year for CIECH S.A is the calendar year.

The statement of profit or loss of CIECH S.A. is prepared in the cost by function format. The statement of cash flows is prepared using the indirect method.

Preparation of the financial statement in accordance with IFRS requires the Management Board to make own assessments and apply certain assumptions and accounting estimates as part of the application of accounting principles adopted by the Company. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these financial statements have been described in note 1.4.

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of CIECH S.A., and the reporting currency of these financial statements. Unless stated otherwise, all financial data in these financial statements have been presented in thousands of Polish zlotys (PLN '000). CIECH S.A. has Branches (in Romania and Germany) whose accounting records are kept in local currencies (RON and EUR). For the purpose of preparing the financial statements of CIECH S.A., accounting records of the Branch in Romania are translated using the transaction exchange rates and the accounting records of the Branch in Germany – at the average NBP rate for a given period. Due to an insignificant value of transactions, translation at this exchange rate does not result in a material distortion of results.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the financial statements, key accounting principles applicable in CIECH S.A. as well as judgements and estimates made have been presented in separate notes.

Note	Title	Accounting principles	Judgements and estimates
3.1.	Sales revenues	x	
3.2.	Cost of sales	x	
3.4.; 3.5.	Other income and expenses	x	x
4.1.	Income tax	x	
4.3.	Deferred income tax	x	x
5.1.	Property, plant and equipment	x	x
5.2.	Intangible assets	x	x
5.3.	Long-term financial assets	x	x
5.4.	Inventories	x	x
5.5.	Short-term receivables	x	x
5.6.	Short-term financial assets	x	x
5.7.	Cash and cash equivalents	x	x
6.2.	Equity	x	
7.2.	Other non-current liabilities	x	
7.3.	Current trade and other liabilities	x	x
7.4.	Operating leases	x	
7.5.	Provisions for employee benefits	x	x
7.6.	Other provisions	x	x
8.1.	Financial instruments	x	x
8.2.	Hedge accounting	x	x
9.2.	Contingent liabilities and assets	x	x

1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

Two amendments to IFRS that became effective as of 1 January 2018, concerning the application of IFRS 9 and IFRS 15, had an impact on these financial statements of CIECH S.A. They are presented below, together with other amendments to IAS/IFRS and their impact on the Company's financial statements:

New Standards, amendments to Standards and Interpretations:		
Approved by the IASB for application after 1 January 2018	**Impact on the financial statements**	**Effective year in the EU**
IFRS 9 "Financial Instruments"	Impact on the financial statements described in Section 1.5.1	2018
IFRS 15 "Revenue from contracts with customers"	Impact on the financial statements described in Section 1.5.2	2018
Clarifications to IFRS 15 "Revenue from contracts with customers"	No material impact on the financial statements is estimated	2018
Amendments to IFRS 2 "Share-based payment" – Classification and measurement of share-based payment transactions	No material impact on the financial statements is estimated	2018
Amendments to IFRS 4: Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"	No material impact on the financial statements is estimated	2018
Annual Improvements to IFRSs, 2014–2016 Cycle	No material impact on the financial statements is estimated	2018
Amendment to IFRS 1 "First-time adoption of IFRS" – removal of short-term exemptions	No impact	2018
Amendments to IAS 28 "Investments in associates" – investments in associates and joint ventures measured at fair value	No material impact on the financial statements is estimated	2018
IFRIC 22 "Foreign currency transactions and advance consideration"	No material impact on the financial statements is estimated	2018

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

New Standards, amendments to Standards and Interpretations:		
Amendments to IAS 40 “Investment properties” – transfers of investment properties	No material impact on the financial statements is estimated	2018
Approved by the IASB for application after 1 January 2019	**Impact on the financial statements**	**Effective year in the EU**
IFRS 16 “Leases”	Impact on the financial statements described in Section 1.5.3	2019
Amendments to IFRS 9 “Financial instruments” – prepayment features with negative compensation	No material impact on the financial statements is estimated	2019
Amendments to IAS 28 “Investments in associates” – measurement of long-term investments	No material impact on the financial statements is estimated	2019
Annual Improvements to IFRSs, 2015–2017 Cycle	No material impact on the financial statements is estimated	2019
Amendments to IAS 19 “Employee benefits” – amendments to defined benefit plans	No material impact on the financial statements is estimated	2019
IFRIC 23 “Uncertainty over income tax treatments”	No material impact on the financial statements is estimated	2019
Approved by the IASB for application after 1 January 2020	**Impact on the financial statements**	**Effective year in the EU**
Amendments to references to the Conceptual Framework in IFRSs	No material impact on the financial statements is estimated	2020
Amendments to IFRS 3 “Business Combinations” – definition of a business	No material impact on the financial statements is estimated	2020
Amendments to IAS 1 and IAS 8 – definition of “material”	No material impact on the financial statements is estimated	2020
Approved by the IASB for application after 1 January 2020	**Impact on the financial statements**	**Effective year in the EU**
IFRS 17 “Insurance Contracts”	No material impact on the financial statements is estimated	2021

1.5.1 IFRS 9 “FINANCIAL INSTRUMENTS”

On 1 January 2018, CIECH S.A. adopted new financial reporting standard, IFRS 9 Financial Instruments.

Implementation of IFRS 9

For the purpose of the initial application of IFRS 9, CIECH S.A. did not restate previous periods' figures. Any differences between the previous carrying amount of financial assets and liabilities and their carrying amount at the beginning of the annual reporting period that includes the date of initial application of IFRS 9 were recognised by CIECH S.A. in the opening retained earnings of the annual reporting period that includes the date of initial application of IFRS 9, i.e. as at 1 January 2018.

IFRS 9 introduced a new impairment model for financial assets based on the concept of „expected credit losses”, changes to the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

Classification and measurement of financial instruments

Financial assets

In accordance with IFRS 9, on initial recognition a financial asset may be classified into the following measurement categories:

1. financial assets measured at amortised cost;
2. financial assets measured at fair value through other comprehensive income;
3. financial assets measured at fair value through profit or loss.

A financial asset is classified into one of above measurement categories on initial recognition in the balance sheet on the basis of the Company’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Upon initial recognition of equity instruments not held for trading (or on the day of initial application of IFRS 9), CIECH S.A. could have made an irrevocable decision to designate individual investments in equity instruments as measured at fair value through other comprehensive income. Other equity instruments are measured at fair value through profit or loss.

At initial recognition, an analysis must be carried out to determine if a financial instrument contains an embedded derivative. Derivative instrument embedded in the hybrid contract, the host of which is a financial asset within the scope of IFRS 9, is not bifurcated and the hybrid contract is recognised in accordance with the MSSF 9 requirements for classification of financial assets. Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed in order to determine whether it should be bifurcated.

Financial assets may be reclassified only when the Company changes the financial asset management business model. In such a case, all financial assets affected by the business model change are subject to reclassification.

Based on the review of financial assets held by the Company after 31 December 2017, CIECH S.A.:

1. determined and allocated groups of financial assets to the appropriate business model on the basis of the assessment of the applied way of managing the financial asset portfolios by:
   a) reviewing and assessing relevant and objective qualitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (in particular, the reasons of sales of the financial assets from certain portfolios that occurred in the past);
   b) reviewing and assessing relevant and objective quantitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (e.g. the value of sales of the financial assets from certain portfolios that occurred, if any, in previous reporting periods and the frequency of those sales);
   c) analysis of expectations regarding the value and frequency of sales from certain portfolios;
2. determined, through identifying and analysing the contractual terms of financial assets with economic characteristics of debts instruments, as a result of which the financial asset may not meet the SPPI criterion, whether these contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. whether they are consistent with the SPPI criterion.

Financial assets with the characteristics of debt instruments

Following the analysis, the Company concluded that the implementation of IFRS 9 will not change the classification and measurement of financial assets held with economic characteristics of a debt instrument. Trade receivables pending transfer to the factor under non-recourse factoring arrangements could be an exception. These receivables are held by CIECH S.A. so that the entire trade receivable balance (agreed with the factor) may be assigned to the factor. The Company manages trade receivables designated for transfer to the factor under factoring without recourse in order to carry out cash flows through the sale of assets – obtaining cash flows arising from the agreement is not an integral part of the business model. Therefore, in accordance with IFRS 9, the Company classified these receivables as financial assets measured at fair value through profit or loss – however, due to the relatively short period of holding the receivables to be transferred to the factor in the balance sheet, the impact of the change in their classification on the financial position of the Company was deemed immaterial.

Equity instruments

CIECH S.A. holds equity instruments (shares) which constitute financial assets within the meaning of IAS 39 and IFRS 9. Pursuant to IAS 39, the Company measured the equity instruments held at cost less impairment losses. The net present carrying amount of these instruments is close to zero.

Pursuant to IFRS 9, CIECH S.A. classified the equity instruments (shares) held as measured at fair value through profit or loss. However, as at the date of implementation of IFRS 9, the estimated fair value of the equity instruments held was close to zero. Therefore, the impact of the change in their classification on CIECH S.A.'s financial position was deemed immaterial.

The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

Classes of financial assets	Categories of financial assets and measurement method according to IAS 39	Business model according to IFRS 9	SPPI Criterion	Reclassification	Categories of financial assets and measurement method according to IFRS 9
Cash and cash equivalents	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Bank deposits (their value is included in cash and cash equivalents)	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Loans granted	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Trade receivables	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Classes of financial assets	Categories of financial assets and measurement method according to IAS 39	Business model according to IFRS 9	SPPI Criterion	Reclassification	Categories of financial assets and measurement method according to IFRS 9
Factoring receivables (transferred to the factor)	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Derivatives	Financial assets measured at fair value through profit or loss	Other business model	Not applicable	None	Financial assets measured at fair value through profit or loss
Derivative instruments designated as hedging instruments	Hedging instruments	Other business model	Not applicable	None	Hedging instruments

Impairment of financial assets

Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate losses. Instead, entities are obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition.

Upon acquisition or granting of a financial asset, CIECH S.A. is obliged to keep an allowance in the amount of a 12-month ECL. In the event of significant increase in credit risk since the initial recognition of the asset, the Group is obliged to calculate lifetime expected credit losses (the so-called Stage 2). Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowance and therefore it will also affect profit or loss.

Trade receivables are exceptions to this rule. For these categories of assets, the Company chose a simplified approach whereby lifetime expected credit losses are estimated from the moment of initial recognition of exposures.

Following the analysis of financial instruments held, CIECH S.A. calculated allowances based on the expected credit loss model for the following classes of financial instruments:

1. Trade receivables,
2. Factoring receivables,
3. Loans granted,
4. Term deposits, cash.

Hedge accounting

CIECH S.A. decided to move to IFRS 9 as regards hedge accounting, as of 1 January 2018. The Company took advantage of the option offered by IFRS 9 and applied the prospective approach from the date of initial application of IFRS 9. IFRS 9 requires the Company to ensure that its hedging relationships are compliant with the risk management strategy applied by the Company and its objectives. IFRS 9 introduces new requirements with regard to, among others, the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the Standard).

Impact of the implementation of IFRS 9 on the statement of financial position of CIECH S.A. as at 1 January 2018

	As at 31.12.2017	Impact in changes of IFRS 9	As at 01.01.2018
ASSETS			
Long-term financial assets	1,864,137	(1,740)	1,862,397
Deferred income tax assets	40,247	210	40,457
Total non-current assets	**1,952,407**	**(1,530)**	**1,950,877**
Short-term financial assets	1,012,304	(14,542)	997,762
Trade and other receivables	280,765	(620)	280,145
Cash and cash equivalents	375,393	(490)	374,903
Total current assets	**1,700,257**	**(15,652)**	**1,684,605**
Total assets	**3,652,664**	**(17,182)**	**3,635,482**
EQUITY AND LIABILITIES			

	As at 31.12.2017	Impact in changes of IFRS 9	As at 01.01.2018
Retained earnings	711,002	(17,182)	693,820
Total equity	**1,549,028**	**(17,182)**	**1,531,846**
Total non-current liabilities	**1,172,446**	**-**	**1,172,446**
Total liabilities	**2,103,636**	**-**	**2,103,636**
Total equity and liabilities	**3,652,664**	**(17,182)**	**3,635,482**

1.5.2 IFRS 15 “Revenue from Contracts with Customers”

On 1 January 2018, CIECH S.A. adopted new financial reporting standard, IFRS 15 Revenue from Contracts with Customers.

Implementation of IFRS 15

IFRS 15 “Revenue from Contracts with Customers” is effective for annual periods beginning on or after 1 January 2018. CIECH S.A. decided to apply IFRS 15 retrospectively with the recognition of the cumulative effect of the initial application of this IFRS as an adjustment to the initial balance of retained earnings in 2018.

The standard introduces uniform requirements for all entities with respect to recognition of revenue from contracts with customers based on the so-called 5-step model:

1. Identifying the contract;
2. Identifying performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to performance obligations;
5. Satisfying the performance obligation.

This standard requires entities to evaluate contracts with customers and to identify elements in them that constitute separate performance obligations as defined in IFRS 15. For contracts that contain more than one performance obligation, the expected consideration will be allocated to each of the contracts in successive steps and the revenue will be recognised when (or as) the performance obligation is satisfied. The obligation to identify the performance obligations also applies to contracts where the contract is assumed to consist of only one element (e.g. sale of a product) when settled with the customer.

Based on the analysis of the impact of IFRS 15 on the financial statements of CIECH S.A., the following areas were identified and adjusted in order to implement the standard. However, due to the immateriality, no adjustments resulting from the implementation of IFRS 15 were made as at 1 January 2018.

Consignment warehouses

The Company enters into agreements with customers under which it undertakes to deliver its products to the customer's warehouses. Under the agreements, customers are supplied with raw materials to be used in production. Products in the raw material warehouse remain the property of the Company until they are released for production to the customer. However, all risks related to the possibility of losing or damaging raw materials are transferred to the customer upon delivery of the raw materials to the warehouse. The Company undertakes to deliver appropriate quantities of raw materials to the raw materials warehouse in accordance with the customer's order, and the customer inspects the quantity of raw materials in the raw materials warehouse in terms of frequency and volume of deliveries.

The new IFRS 15 guidelines concerning the determination of the moment of revenue recognition, i.e. the transfer of control, resulted in a change in the moment of recognition of revenue from the sale of products transferred to raw material warehouses. Control over the raw materials is transferred to the customer upon their acceptance into storage and revenue is recognised at this point.

The tables below summarise the impact of the application of IFRS 15 on the financial statements of CIECH S.A. for 2018. In order to ensure comparability of financial data presented in different periods, the Company presented below a reconciliation of data prepared in accordance with IFRS 15 with data which would have been prepared had IAS 11 and IAS 18 been in force in 2018.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

	01.01.-31.12.2018 based on IFRS 15	Adjustments IFRS 15	01.01.-31.12.2018 without impact of the implementation of IFRS 15
CONTINUING OPERATIONS			
Sales revenues	2,418,534	(6,360)	2 412,174
Cost of sales	(2,029,456)	5,292	(2 024,164)
Gross profit on sales	**389,078**	**(1,068)**	**388,010**
Other operating income	4,154	-	4,154
Selling costs	(221,224)	-	(221,224)
General and administrative expenses	(55,688)	-	(55,688)
Other operating expenses	(4,041)	-	(4,041)
Operating profit	**112,279**	**(1,068)**	**111,211**
Financial income	343,552	-	343,552
Financial expenses	(121,818)	-	(121,818)
Przychody / (koszty) finansowe netto	**221,734**	**-**	**221,734**
Profit before tax	**334,013**	**(1,068)**	**332,945**
Income tax	(63,401)	203	**(63,198)**
Net profit on continuing operations	**270,612**	**(865)**	**269,747**

	31.12.2018 based on IFRS 15	Adjustments IFRS 15	31.12.2018 without impact of the implementation of IFRS 15
ASSETS			
Deferred income tax assets	25 514	203	25 717
Total non-current assets	**2 424 310**	**203**	**2 424 513**
Inventory	41 019	5 292	46 311
Trade and other receivables	400 673	(6 360)	394 313
Total current assets	**1 503 144**	**(1 068)**	**1 502 076**
Total assets	**3 927 454**	**(865)**	**3 926 589**
EQUITY AND LIABILITIES	-	-	-
Retained earnings	569 183	(865)	568 318
Equity attributable to shareholders of the parent	**1 402 701**	**(865)**	**1 401 836**
Total equity	**1 402 701**	**(865)**	**1 401 836**
Total non-current liabilities	**1 393 685**	**-**	**1 393 685**
Trade and other liabilities	532 895	-	532 895
Total current liabilities	**1 131 068**	**-**	**1 131 068**
Total liabilities	**2 524 753**	**-**	**2 524 753**
Total equity and liabilities	**3 927 454**	**(865)**	**3 926 589**

1.5.3 IFRS 16 "Leases"

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. Ciech S.A. has not elected to early adopt the standard and decided to adapt it from 1st January 2019.

The standard has introduced a new definition of lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a given period if, throughout the period of use, the customer has the right to both direct the use of the identified asset and obtain substantially all of the economic benefits from directing the use of the identified asset. As a practical expedient, entities are not required to reassess whether a contract is a lease at the date of initial application of the standard. Instead, the new definition may not be applied to contracts that were previously assessed as to whether they classified as leases in accordance with IAS 17 and IFRIC 4. If entities choose to apply the aforementioned expedient for the identification of contracts as leases, the new lease definition would apply only to contracts executed after 1 January 2019.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

For a contract that is, or contains, a lease, an entity accounts for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient. As a practical expedient, a lessee may elect not to separate non-lease components, and instead account for the entire contract as a single lease component.

For lessees, IFRS 16 departs from the classification of leases into operating and finance leases and introduces a single model of accounting treatment, broadly equivalent to the existing accounting model used for finance leases. The lessees will be required to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, with each of them subject to different accounting treatment.

In the CIECH S.A., once the new standard has been applied, operating leases will be recognised in the statement of financial position, which will result in an increase in the balance sheet total (by reporting the right-of-use assets under fixed assets in the statement of financial position with corresponding lease liabilities) and change the classification of expenses in the statement of profit or loss (where lease expenses will be replaced by depreciation and interest expense). Assets due to the right to use are going to be depreciated on a straight-line basis and lease liabilities are settled using the suitable interest rate.

The current value of the lease payment will be determined based on the marginal loan rate. In calculating interest rates, the credit risk (reflected in the assumed margin) was taken into consideration, the economic conditions in which the transactions took place (country, currency of the contract) and the duration of the contract (calculations for the relevant periods under which the Group has lease agreements. The level of interest ranges between 3.71% and 5.74% for PLN, for EUR it's 3.27%.

In addition, the period of the lease payment projections applied refered only to the irrevocable lease term, whereas under IFRS 16, the lease term over which the lease liability is recognised also includes any periods resulting from an extension or early termination if any of the above scenarios is sufficiently certain in the entity's judgement. In the case of contracts with an extension option, the lease liability would be respectively higher, while termination options would result in a respective reduction in the liability amount.

Ciech S.A. applied the simplifications for short-term leases and low-value asset leases provided for in the standard. It is assumed that assets whose unit value does not exceed approximately PLN 15 thousand, which corresponds to approximately USD 5 thousand, are low-value assets. Short-term leases are those whose term is shorter than 12 months.

The entry of IFRS 16 into force has also affect on the determination of the ratio calculated in relation to the facilities agreement (net leverage ratio). Should this be the case, the CIECH S.A. will strive to revise the definition in the facilities agreement so that the change of presentation would not have a negative impact on the level of the ratios calculated.

The impact of the implementation of IFRS 16 on the financial statements of the CIECH S.A. on January 1, 2019 is as follows (amounts refer to newly recognized assets):

	01.01.2019
Recognized rights to use an asset	32,518
Recognized liabilities from lease	32,518

2 SEGMENT REPORTING

CIECH S.A.'s operating segments are designated on the basis of internal reports prepared in the Company and regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

CIECH S.A. has been divided into the following operating segments:

Soda segment – the most important manufactured goods in the scope of the segment products are: light and dense sodium carbonate, evaporated salt, sodium bicarbonate and calcium chloride. The products of this segment are sold mainly by the parent company CIECH S.A. Production of the soda segment goods manufactured by the CIECH Group is implemented in CIECH Soda Polska S.A., the Romanian company CIECH Soda Romania S.A. and in the German company CIECH Soda Deutschland GmbH & Co. KG. (the German company also sells its products on its own). Soda segment goods are used in the glass, food, detergent and pharmaceutical industries.

Organic segment – CIECH S.A. is the main supplier of raw materials to companies operating within the organic segment. The CIECH Group companies (CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o.) are the producers of a variety of organic compounds, including polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. CIECH Sarzyna S.A. and bought in July 2018 Spanish company Proplan Plant Protection Company S.L.. also manufactures crop protection chemicals used in agriculture.

Silicates and Glass segment – CIECH S.A. sells the Silicates and Glass segment products manufactured by CIECH Soda Romania S.A. Key products in this group include glassy sodium silicate and sodium water glass. These products are used by the construction industry and in the production of detergents.

Transport segment – it includes forwarding activities carried out by CIECH S.A. since 2016 for its subsidiaries, i.e. CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A.

Other activities segment – it covers mainly services rendered outside the Group and goods sold by CIECH S.A. outside the scope of the above segments.

The data concerning individual segments also includes support services provided by CIECH S.A. to the CIECH Group companies, such as accounting, controlling, legal, administrative and IT services.

The financing is managed (including finance expenses and incomes with the exception of interest on trade receivables and liabilities) and income tax is calculated on the Company level. The data concerning these areas is not allocated to particular segments.

Information on the Company's geographical areas is established based on the location of its assets.

Reporting segments are identical to operating segments. Revenues and costs, assets and liabilities of segments are recognised and measured in a manner consistent with the method used in the financial statements.

Operational segments results are assessed by the CIECH S.A's Management Board on the basis of sales revenue, operating profit, level of EBITDA and adjusted EBITDA. EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and service debt. EBITDA and adjusted EBITDA levels are not defined by the IFRS and can be calculated in a different manner by other entities.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

The reconciliation and definitions applied by CIECH S.A. when determining these measures are presented below.

	01.01.-31.12.2018	01.01.-31.12.2017
Net profit/(loss) on continuing operations	270,612	243,907
Income tax	63,401	57,564
Financial expenses	121,818	283,535
Financial income	(343,552)	(342,793)
Amortisation/depreciation	8,627	5,213
EBITDA from continuing	**120,906**	**247,426**

	01.01.-31.12.2018	01.01.-31.12.2017
EBITDA from continuing	**120,906**	**247,426**
One-offs including:	(325)	(1,241)
Impairment	210	1
Cash items (a)	112	(84)
Non-cash items (excluding impairment losses) (b)	(647)	(1,158)
Adjusted EBITDA from continuing operations	**120,581**	**246,185**

(a) Cash items include, among others, gain/loss of the sale of property, plant and equipment, as well as fees and compensations received).

(b) Non-cash items include: provisions for liabilities and compensation and other provisions.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

OPERATING SEGMENTS

Revenue and costs data as well as assets, equity and liabilities data of particular CIECH S.A.'s operating segments for periods disclosed in statements are presented in the tables below.

OPERATING SEGMENTS 01.01.-31.12.2018	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions	TOTAL
Total sales revenues	**1,822,982**	**531,116**	**16,939**	**44,465**	**3,032**	**-**	**2,418,534**
Cost of sales	(1,452,230)	(515,974)	(14,458)	(44,368)	(2,426)	-	(2,029,456)
Gross profit /(loss) on sales	**370,752**	**15,142**	**2,481**	**97**	**606**	**-**	**389,078**
Selling costs	(213,227)	(2,539)	(1,342)	(3,753)	(140)	(223)	(221,224)
General and administrative expenses	(1,175)	(642)	(52)	(183)	-	(53,636)	(55,688)
Result on management of receivables	(36)	(45)	(1)	(3)	(207)	-	(292)
Result on other operating activities	1,011	(25)	(7)	(52)	67	(589)	405
Operating profit /(loss)	**157,325**	**11,891**	**1,079**	**(3,894)**	**326**	**(54,448)**	**112,279**
Exchange differences and interest on trade settlements	(6,967)	(12,434)	(87)	(1)	(215)	-	(19,704)
Borrowing costs	-	-	-	-	-	(24,701)	(24,701)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	266,139	266,139
Profit /(loss) before tax	**150,358**	**(543)**	**992**	**(3,895)**	**111**	**186,990**	**334,013**
Income tax	-	-	-	-	-	-	(63,401)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**270,612**
Amortization/depreciation	3,432	-	-	-	-	5,195	8,627
EBITDA	160,757	11,891	1,079	(3,894)	326	(49,253)	120,906
Adjusted EBITDA**	160,814	11,892	1,086	(3,844)	326	(49,693)	120,581

** Adjusted EBITDA for the 12-month period ended 31 December 2018 is calculated as EBITDA adjusted for untypical one-off events: impairment of non-financial assets: PLN -210 thousand, recognition/reversal of provisions: PLN 652 thousand, penalty fees and compensation paid/received: PLN -106 thousand, donations given: PLN -40 thousand, other: PLN 29 thousand.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

OPERATING SEGMENTS 01.01.-31.12.2017	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions	TOTAL
Total sales revenues	**1,817,739**	**505,095**	**15,108**	**25,128**	**2,694**	**-**	**2,365,764**
Cost of sales	(1,331,802)	(490,871)	(13,779)	(24,601)	(2,293)	-	(1,863,346)
Gross profit /(loss) on sales	**485,937**	**14,224**	**1,329**	**527**	**401**	**-**	**502,418**
Selling costs	(199,960)	(2,040)	(954)	(2,966)	(73)	(1,119)	(207,112)
General and administrative expenses	(3,617)	(1,328)	(55)	(206)	(535)	(49,586)	(55,327)
Result on management of receivables	132	-	-	-	6	1	139
Result on other operating activities	2,548	(5)	-	-	1	(449)	2,095
Operating profit /(loss)	**285,040**	**10,851**	**320**	**(2,645)**	**(200)**	**(51,153)**	**242,213**
Exchange differences and interest on trade settlements	(17,188)	(5,503)	-	3	206	-	(22,482)
Borrowing costs	-	-	-	-	-	(7,086)	(7,086)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	88,826	88,826
Profit /(loss) before tax	**267,852**	**5,348**	**320**	**(2,642)**	**6**	**30,587**	**301,471**
Income tax							(57,564)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**243,907**
Amortization/depreciation	-	-	-	-	-	5,213	5,213
EBITDA	285,040	10,851	320	(2,645)	(200)	(45,940)	247,426
Adjusted EBITDA**	283,842	10,852	320	(2,645)	(200)	(45,984)	246,185

** Adjusted EBITDA for the 12-month period ended 31 December 2017 is calculated as EBITDA adjusted for untypical one-off events: recognition/reversal of provisions: PLN 1,158 thousand, penalty fees and compensation paid/received: PLN 40 thousand, donations given: PLN -53 thousand, other: PLN 96 thousand.*

There are no significant customers outside CIECH GROUP from whom the Company would earn 10% of its total revenues.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Soda segment	202,832	182,556	373,640	303,910
Organic segment	112,887	53,730	84,483	77,512
Silicates and glass segment	4,695	5,106	2,208	3,272
Transport segment	10,859	4,589	6,760	5,151
Other operations segment	1,009	3,153	9,590	9,040
Corporate functions	3,595,172	3,403,530	2,048,072	1,704,751
Total	**3,927,454**	**3,652,664**	**2,524,753**	**2,103,636**

SALES REVENUES BY BUSINESS SEGMENTS

	01.01.-31.12.2018	01.01-31.12.2017	Change 2018/2017	Change %
Soda segment, including:	**1,822,982**	**1,817,739**	**5,243**	**0,3%**
Dense soda ash	1,006,615	1,053,263	(46,648)	(4,4%)
Light soda ash	467,732	445,528	22,204	5,0%
Salt	182,634	169,968	12,666	7,5%
Sodium bicarbonate	97,255	94,998	2,257	2,4%
Calcium chloride	26,159	19,829	6,330	31,9%
Other goods and services	42,587	34,153	8,434	24,7%
Organic segment, including:	**531,116**	**505,095**	**26,021**	**5,2%**
Raw materials for production of plant pro-tection products	130,734	117,596	13,138	11,2%
Raw materials for production of plastics	245,919	235,199	10,720	4,6%
Raw materials for the production of polyu-rethane foams	143,793	142,961	832	0,6%
Other goods and services	10,670	9,339	1,331	14,3%
Silicates and Glass segment, including:	**16,939**	**15,108**	**1,831**	**12,1%**
Sodium silicates	15,225	13,868	1,357	9,8%
Other goods and services	1,714	1,240	474	38,2%
Transport segment, including:	**44,465**	**25,128**	**19,337**	**77,0%**
Transport services	44,465	25,128	19,337	77,0%
Other segment, including:	**3,032**	**2,694**	**338**	**12,5%**
Revenues from third parties	3,032	2,694	338	12,5%
TOTAL	**2,418,534**	**2,365,764**	**52,770**	**2,2%**

In CIECH S.A. sales revenues are recognized at the time of service or delivery of goods.

INFORMATION ON GEOGRAPHICAL AREAS

Information on CIECH S.A.’s geographical areas is established based on the location of its assets.

	ASSETS	
	31.12.2018	31.12.2017
Poland	2,276,979	2,590,308
European Union (excluding Poland)	1,551,440	986,953
Other European countries	39,838	26,634
Africa	9,745	3,779
Asia	49,452	44,433
Other regions	-	557
TOTAL	**3,927,454**	**3,652,664**

The Company’s non-current assets are located in Poland and the European Union. As regards the European Union, the most significant non-current assets comprise shares in subsidiaries having their registered offices mainly in Romania (PLN 111,000 thousand), Germany (PLN 536,976 thousand) and Spain (PLN 203,866 thousand). Trade and other receivables constitute the main component of current assets presented in individual geographical areas.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

	Net revenues from sales	
	01.01.-31.12.2018	01.01.-31.12.2017
Poland	1,239,920	1,174,493
European Union (excluding Poland)	679,552	717,891
Germany	131,705	117,705
Romania	121,499	140,023
Czech Republic	119,889	131,638
Italy	8,549	11,985
The Netherlands	47,725	48,278
Finland	56,207	48,855
Sweden	55,673	68,861
Belgium	13,828	19,151
United Kingdom	25,674	29,102
Denmark	1,155	293
France	15,148	37,804
Lithuania	10,839	11,204
Other EU countries	71,661	52,992
Other European Countries	207,566	201,488
Switzerland	105,538	95,800
Norway	37,008	38,428
Russia	803	5,079
Other European countries	64,217	62,181
Africa	60,255	54,532
Asia	217,793	172,379
India	123,780	124,899
Singapore	11,397	16,248
Bangladesh	16,172	3,666
Hong Kong	25,078	9,784
Turkey	10,867	8,366
Other Asian countries	30,499	9,416
Other regions	6,787	25,279
Hedge accounting	6,661	19,702
Total	**2,418,534**	**2,365,764**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

3 NOTES TO THE STATEMENT OF PROFIT OR LOSS AND STATEMENT OF OTHER COMPREHENSIVE INCOME

3.1. SALES REVENUES

Accounting policy

The Entity recognises revenues based on the so-called 5-step model – when it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, the Entity recognises as revenues the amount of the transaction price that is allocated to that performance obligation. The obligation to identify the performance obligations also applies to contracts where the contract is assumed to consist of only one element (e.g. sale of a product) when settled with the customer.

Revenues from the sales of products and goods are recognised in profit or loss at the NBP's average exchange rate from the date preceding the date of invoice, when the significant risks and rewards of ownership have been transferred to the buyer, except for sales revenues earned by the Branch of CIECH S.A. in Germany whose currency translation principle is described in note 1.3.

SALES REVENUES	01.01.-31.12.2018	01.01.-31.12.2017
Revenues from sales of products and services	**105,833**	**78,593**
- services	105,833	78,593
Revenues from sales of goods and materials	**2,312,701**	**2,287,171**
- goods	2,312,701	2,287,171
Net sales of products, goods and materials	**2,418,534**	**2,365,764**

3.2. COST OF SALES, SELLING COSTS, GENERAL AND ADMINISTRATIVE EXPENSES

Accounting policy

Expenses are probable decreases in economic benefits in the form of outflows or depletions of assets or increases in liabilities and provisions.

Cost of sales comprises the production cost of services sold and the cost of goods and materials sold. Selling costs include, among others: costs of transport, sales commissions and the costs of advertising, promotion and distribution.

General and administrative expenses are expenses associated with activities of the entity's management or those of general functions.

COST OF SALES, SELING COST AND ADMINISTRATIVE EXPENSES	01.01.-31.12.2018	01.01.-31.12.2017
Cost of manufacture of products and services sold	(93,694)	(68,098)
Cost of sold goods and materials sold	(1,935,762)	(1,795,248)
Cost of sales	(2,029,456)	(1,863,346)
Selling costs	(221,224)	(207,112)
General and administrative expenses	**(55,688)**	**(55,327)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2018	01.01.-31.12.2017
Amortisation	(8,627)	(5,213)
Consumption of materials and energy	(3,135)	(2,534)
Employee benefits, including:	(53,984)	(70,274)
- payroll	(46,007)	(59,774)
- social security and other benefits	(7,977)	(10,500)
External services	(266,361)	(220,640)

3.4. OTHER OPERATING INCOME AND EXPENSES

Accounting policy

The reporting period's results are also affected by other operating income and expenses indirectly related to the Company's core operations.

The key items include:

- ✓ recognition/reversal of provisions
- ✓ gains/ losses on disposal and liquidation of non-financial non-current assets,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables),
- ✓ penalty fees and compensation paid/ received;
- ✓ income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset.

Subsidies

Government subsidies are recognised when there is reasonable assurance that the subsidy will be received and that the entity will comply with all relevant conditions of the subsidy. Subsidies are recognised as income in profit or loss on a systematic basis when the entity recognises, as expenses, the related costs that the subsidies are intended to compensate.

Judgements and estimates

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventory and deferred tax assets, are reviewed at reporting date to determine whether there is any indication of impairment. If any such indication exists, then the Company estimates the recoverable amount of the respective cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised against the carrying amount of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses are recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in profit or loss. Impairment losses in respect of assets are recognised in those expense categories that correspond to the function of the asset to which they relate.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

OTHER OPERATING INCOME	01.01.-31.12.2018	01.01.-31.12.2017
Rents/lease income	582	739
Gain on disposal of non-financial non-current assets	31	97
Reversal of impairment allowances on receivables	682	176
Reversal of impairment losses on property, plant and equipment and intangible assets	1	-
Reversal of provisions on employee benefits	-	87
Reversal of provisions for compensation – changing the base	-	105
Reversal of provisions for liabilities – changing the base	924	904
Reversal of other provisions	-	251
Penalty fees and compensations received	38	67
Other	1,896	2,035
TOTAL	**4,154**	**4,461**

OTHER OPERATING EXPENSES	01.01.-31.12.2018	01.01.-31.12.2017
Rental costs	(581)	(575)
Recognition of impairment losses on receivables	(974)	(37)
Recognition of impairment losses on property of intangible assets	(210)	(1)
Recognition of provisions on employee benefits	(244)	(51)
Recognition of provisions for restructuring - changing the base	-	(9)
Recognition of provisions for compensation – changing the base	(12)	-
Recognition of provisions for liabilities	(170)	(102)
Recognition of provision for anticipated losses	(90)	-
Costs of remediating the effects of fortuitous events	(3)	-
Receivables written-off	(8)	-
Penalties and compensations paid	(144)	(27)
Other	(1,605)	(1,425)
TOTAL	**(4,041)**	**(2,227)**

As at 31 December 2018, CIECH S.A. made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment of non-financial assets. These analyses did not indicate the need to make larger estimates of the recoverable amount, except for the intangible assets.

3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy

Financial income and expenses relate to an entity's financing activities including the acquisition and disposal of equity, securities, drawing of loans and borrowings, issuance of debt securities. Key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ impairment losses on financial assets,
- ✓ interest earned by the Company on cash and cash equivalents (bank deposits and accounts loans granted and receivables) – accounted for in the profit and loss on accrual basis using the effective interest method,
- ✓ dividend income – recognised in profit or loss when the Company's right to receive payment is established,
- ✓ net foreign exchange gains or losses,
- ✓ gains/(losses) on sales of financial assets,
- ✓ gains/(losses) on derivatives.

Judgements and estimates

At each reporting date the Company assesses whether there is any evidence that a financial asset or a group of financial assets is impaired. Where such evidence exists, the Company tests the value of interests in subsidiaries. The recoverable value is defined as the higher of value in use and fair value less costs to sell. Value in use is determined using the discounted cash flow model. The cash flows are based on financial plans covering a period of the next five years, excluding the effects of restructuring, or significant future investments that can improve the operating results of assets being part of the tested cash-generating unit. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model, as well as the expected future cash flows and growth rate adopted for the residual period.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Where it is necessary to recognise impairment losses on involvement in other companies, such losses are recognised in the following order: on shares, on loans granted, on interest on loans.

NET FINANCIAL INCOME (EXPENSES)	01.01.-31.12.2018	01.01.-31.12.2017
Interest	54,777	44,264
Dividends and shares in profit	1,677	127,873
Net foreign exchange gains	2,671	-
Reversal of impairment losses*	282,937	94,886
Income from liquidated companies	69	454
Profits from derivatives	112	75,236
Other	1,309	80
Total financial income	**343,552**	**342,793**
Interest	(69,014)	(49,596)
Net foreign exchange losses	-	(12,155)
Recognition of other impairment losses*	(23,281)	(202,313)
Factoring commissions	(1,698)	(1,512)
Bank fees and commissions	(3,519)	(3,523)
Recognition of provision for anticipated losses	(1,320)	(1,321)
Increase in provisions due to change in discount rates	-	(21)
Loss due to derivatives	(9,198)	-
Costs of discounting of liabilities	(1,181)	-
Guarantees costs	(10,734)	(12,221)
Other	(1,873)	(873)
Total financial expenses	(121,818)	**(283,535)**
Net Financial income (expenses)	**221,734**	**59,258**

**Detailed description of recognised and reversed impairment losses of the value of financial assets is provided in notes 5.3 and 5.6.*

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group	01.01.-31.12.2018			01.01.-31.12.2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Cash flow hedge	(5,345)	947	(4,398)	10,132	(1,766)	8,366
Valuation of actuarial provisions	(136)	26	(110)	(13)	2	(11)
TOTAL	**(5,481)**	**973**	**(4,508)**	**10,119**	**(1,764)**	**8,355**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2018	01.01.-31.12.2017
Cash flow hedge	**(5,345)**	**10,132**
fair value remeasurement in the period	(14,690)	(1,652)
reclassification to profit or loss	9,345	11,784
Valuation of actuarial provisions	**(136)**	**(13)**
remeasurement for the current period	(136)	(13)
Income tax attributable to other components of other comprehensive income	**973**	**(1,764)**
accrued for the current period	2,767	1,920
reclassification to profit or loss	(1,794)	(3,684)
Other comprehensive income net of tax	**(4,508)**	**8,355**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

4 INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

Accounting policy

Current tax receivables and liabilities for the current and prior periods are measured in the amount of the expected tax amount to be paid to tax authorities (recoverable from tax authorities) using tax rates and tax laws that are legally or substantively enacted at the reporting date.

4.1. MAIN COMPONENTS OF TAX EXPENSE

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2018	01.01.-31.12.2017
Current income tax	**(47,487)**	**(1,320)**
Income tax for the reporting period	(6,790)	(1,320)
Adjustment to tax for previous years	(40,697)	-
Deferred tax	**(15,914)**	**(56,244)**
Origination/reversal of temporary differences	(15,914)	(56,244)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(63,401)**	**(57,564)**

Under the current income tax, the Group presented a provision recognised for a potential tax liability, in the amount of PLN 43,700 thousand. For a detailed description of this case, see note 9.2 to these financial statements.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2018	01.01.-31.12.2017
Cash flow hedge	947	(1,766)
Valuation of actuarial provisions	26	2
TOTAL	**973**	**(1,764)**

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Company's pre-tax financial result to income tax calculated based on the effective tax rate:

EFFECTIVE TAX RATE	01.01.-31.12.2018	01.01.-31.12.2017
Profit (loss) before taxes	**334,013**	**301,471**
Income tax based on currently enacted tax rate	(63,462)	(57,279)
Difference due to the application of tax rates of other tax jurisdictions*	(1,023)	(1,207)
Tax effect of revenues which are not revenues according to tax regulations (permanent difference)**	65,054	40,405
Tax effect of costs which are not obtaining costs according to tax regulations (permanent difference)***	(23,273)	(40,294)
Tax losses from statement periods from which deferred tax asset was not included	(40,697)	811
Income tax recognised In profit and loss statement	**(63,401)**	**(57,564)**
EFFECTIVE TAX RATE	**19%**	**19%**

**The Branch of CIECH S.A. in Romania is subject to a tax rate of 16% and the Branch of CIECH S.A. in Germany – to a tax rate of 30.88%. The tax rates were applied continuously in both periods.*

***The main items included in the amount of revenues which are not revenues according to tax regulations result from reversal of impairment losses on investments in subsidiaries and dividend income.*

****The main items included in the amount of non-tax deductible expenses result from the recognition of provisions and impairment losses under IFRS 9.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

4.3. DEFERRED INCOME TAX

Accounting policy

Deferred tax is recognised in respect of temporary differences between the tax values of assets and liabilities and the carrying amounts recognised in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences, unless:

- ✓ the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, or
- ✓ the investor is able to control the timing of the reversal of temporary differences in respect of investments in subsidiaries, associates and joint ventures, and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and for unused tax credits and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised:

- ✓ unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, and
- ✓ deductible temporary differences in respect of investments in subsidiaries, associates and joint ventures are recognised in statement of financial position only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of every reporting period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the asset can be utilised. Any previously unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and laws that have been enacted at the reporting date or whose application in the future is certain at the reporting date.

Income tax related to items recognised outside profit or loss is itself recognised either in other comprehensive income, when it relates to items recognised in other comprehensive income, or directly in equity, when it relates to items recognised directly in equity.

Deferred tax assets and liabilities are offset solely if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Judgements and estimates

Deferred income tax is based on the assumption that future taxable profit will allow for its usage. In determining the amount of deferred tax assets, CIECH S.A. bases its calculations on estimates related to the term and amount of future taxable income.

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2018			31.12.2017		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	40	74	(34)	-	74	(74)
Financial assets	646	9,746	(9,100)	700	14,970	(14,270)
Inventory	-	203	(203)	-	-	-
Trade and other receivables	118	152	(34)	-	1,297	(1,297)
Provisions for employee benefits	106	3	103	111	31	80
Tax losses carried forward	15,916	-	15,916	48,023	-	48,023
Foreign exchange differences	2,511	-	2,511	3,212	-	3,212
Liabilities	16,417	62	16,355	5,383	810	4,573
Deferred tax assets/liability	**35,754**	**10,240**	**25,514**	**57,429**	**17,182**	**40,247**
Set - off of deferred tax assets/ liability	(10,240)	(10,240)	-	(17,182)	(17,182)	-
Deferred tax assets/liability recognised in the statement of financial position	**25,514**	**-**	**25,514**	**40,247**	**-**	**40,247**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

The company estimates that in over 12 months from the period for wchich the financial statements is presented, the deffered tax asset will be realized in the amount of PLN 662 thousand. In the same period, the estimated amount of reserve for deferred tax will be PLN 9,749 thousand.

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2018	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	31.12.2018
Property, plant and equipment	(391)	210	-	(181)
Financial assets	(79,567)	36,197	(5,233)	(48,603)
Inventory	-	(1,068)	-	(1,068)
Trade and other receivables	(6,826)	7,131	-	305
Provisions for employee benefits	421	(15)	135	541
Tax losses carried forward	252,753	(168,983)	-	83,770
Foreign exchange differences	16,904	(3,683)	-	13,221
Liabilities	24,064	62,273	-	86,337
TOTAL	**207,358**	**(67,938)**	**(5,098)**	**135,427**

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2017	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	31.12.2017
Property, plant and equipment	(391)	-	-	(391)
Financial assets	(46,640)	(23,632)	(9,295)	(79,567)
Trade and other receivables	(2,026)	(4,800)	-	(6,826)
Provisions for employee benefits	405	5	11	421
Tax losses carried forward	463,516	(210,763)	-	252,753
Foreign exchange differences	19,878	(2,974)	-	16,904
Liabilities	77,932	(53,868)	-	24,064
TOTAL	**512,674**	**(296,032)**	**(9,284)**	**207,358**

The Management Board of the Company predicts that sufficient taxable profit will be realised within the period after the reporting date against which the Company can fully utilise the benefits therefrom. The expected taxable profit will be generated primarily on operating activities.

The Company created an asset for deferred tax due to tax loss based on tax budgets. It is anticipated that in the period of the possible loss the tax income will occur, guaranteeing the realization of the deferred tax asset in its entirety.

The Company did not recognise any deferred tax assets on impairment losses on shares in subsidiaries due to the fact that the Management Board of CIECH S.A. does not intend to sell them in the foreseeable future.

A portion of impairment losses recognised by the Company constitute a permanent difference which will not reduce the tax base in the future. This concerns mainly impairment losses on shares and loans granted to related entities.

In the light of provisions of the General Anti-Avoidance Rule ("GAAR"), applicable as of 15 July 2016 and aimed at preventing the origination and use of factitious legal structures designed to avoid payment of taxes in Poland, the Management Board of CIECH S.A. considered the impact of transactions which could potentially be subject to the GAAR regulations on the deferred tax, tax value of assets and deferred tax provisions. In the opinion of the Management Board, the analysis conducted did not demonstrate the need to adjust the reported current and deferred income tax items. However, in the opinion of the Management Board, there is an inherent uncertainty arising from GAAR that tax authorities will interpret these provisions differently, will change their approach to their interpretation or the rules themselves will change, which may affect the ability to utilise the deferred tax assets in future periods and the possible payment of an additional tax for past periods.

5 NOTES TO ASSETS REPORTED IN THE STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and all other costs directly attributable to the acquisition of the asset and bringing it to a working condition for its intended use. The cost also includes the cost of replacing components of machinery and equipment when incurred if the recognition criteria are met.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment are capitalised. Other costs are capitalised only to the extent that it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Other subsequent costs are recognised in the profit or loss statement as incurred expenses.

A separate component of an item of property, plant and equipment, requiring replacement at regular intervals, is depreciated over its economic useful life.

The Company increases the value of property, plant and equipment by the value of outlays for periodic major overhauls, necessary for the functioning of a given item of property, plant and equipment. These expenditures are treated as a separate item of property, plant and equipment and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous repairs is allocated to operating expenses.

Upon the acquisition or creation of an item of property, plant and equipment, the Company separates from the cost a value equal to the expenditures that need to be made during the next overhaul of a given item of property, plant and equipment and depreciates it through the anticipated period left until the next planned overhaul.

Depreciation

Items of property, plant and equipment, and also their significant and separate components, are depreciated on a straight-line basis over their respective estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20-40 years
Machinery and equipment	3-10 years
Means of transport	5 years

Judgements and estimates

Depreciation rates are determined on the basis of the expected useful lives of property, plant and equipment, and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

01.01.-31.12.2018	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**761**	**19,792**	**63**	**1,580**	**992**	**23,188**
Purchase	15	3,073	-	111	3,199	6,398
Investment outlays	-	-	-	-	499	499
Reclassification	-	986	-	5	(4,189)	(3,198)
Sales	-	(225)	(3)	-	-	(228)
Liquidation	(363)	(359)	-	-	-	(722)
Other	-	6	-	-	-	6
Gross value of property, plant and equipment at the end of the period	**413**	**23,273**	**60**	**1,696**	**501**	**25,943**
Accumulated depreciation at the beginning of the period	**(433)**	**(7,826)**	**(62)**	**(986)**	**-**	**(9,307)**
Depreciation for the period	**305**	**(3,209)**	**2**	**(183)**	**-**	**(3,085)**
Annual depreciation charge	(58)	(3,787)	(1)	(183)	-	(4,029)
Sales	-	221	3	-	-	224
Liquidation	363	357	-	-	-	720
Accumulated depreciation at the end of the period	**(128)**	**(11,035)**	**(60)**	**(1,169)**	**-**	**(12,392)**
Impairment losses at the beginning of the period	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Reversal	-	1	-	-	-	1
Impairment losses at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount of property, plant and equipment at the beginning of period	**328**	**11,965**	**1**	**594**	**992**	**13,880**
Carrying amount of property, plant and equipment at the end of the period	**285**	**12,238**	**-**	**527**	**501**	**13,551**

01.01.-31.12.2017	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**959**	**15,443**	**63**	**1,521**	**31**	**18,017**
Purchase	21	4,607	-	59	4,687	9,374
Investment outlays	-	-	-	-	991	991
Reclassification	-	30	-	-	(4,717)	(4,687)
Sales	(219)	(294)	-	-	-	(513)
Liquidation	-	6	-	-	-	6
Gross value of property, plant and equipment at the end of the period	**761**	**19,792**	**63**	**1,580**	**992**	**23,188**
Accumulated depreciation at the beginning of the period	**(593)**	**(5,180)**	**(62)**	**(820)**	**-**	**(6,655)**
Depreciation for the period	**160**	**(2,646)**	**-**	**(166)**	**-**	**(2,652)**
Annual depreciation charge	(59)	(2,938)	-	(166)	-	(3,163)
Sales	219	292	-	-	-	511
Accumulated depreciation at the end of the period	**(433)**	**(7,826)**	**(62)**	**(986)**	**-**	**(9,307)**
Impairment losses at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**
Recognition	-	(1)	-	-	-	(1)
Impairment losses at the end of the period	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Carrying amount of property, plant and equipment at the beginning of period	**366**	**10,263**	**1**	**701**	**31**	**11,362**
Carrying amount of property, plant and equipment at the end of the period	**328**	**11,965**	**1**	**594**	**992**	**13,880**

Depreciation of property, plant and equipment was charged to the following line items in the statement of profit or loss:

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2018	01.01.-31.12.2017
Selling costs	-	(2)
General and administrative expenses	(4,029)	(3,161)
TOTAL	**(4,029)**	**(3,163)**

In the current period changes in accounting estimates did not have a material impact and it is not expected that they will have a material impact in future periods.

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2018	31.12.2017
Owned	13,551	13,880
TOTAL	**13,551**	**13,880**

In the reporting periods, CIECH S.A. did not receive any compensation from third parties for impaired items of property, plant and equipment.

As at 31 December 2018, collateral was established on all items of property, plant and equipment (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 63 thousand in 2018 (in the comparable period: PLN 70 thousand).

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2018	31.12.2017
Used under lease, tenancy and other agreements including:	**1,634**	**2,464**
Operating lease agreement	1,634	2,464

CIECH S.A. uses passenger cars under operating lease agreements. The value of these cars includes the approximate value of the leased assets, determined as the initial value, less the annual depreciation rate for this group of fixed assets. As at 31 December 2018, this amount was PLN 1,634 thousand, and in the comparable period – PLN 2,464 thousand.

CIECH S.A. is also a lessee of office space, in which the largest item (approx. 2 thousand m^2) is the office in Warsaw at Wspólna Street, where the Company's registered office is located. The term of the lease agreement expires in 2028. The company does not have a valuation report concerning the lease real property and is of the opinion that the cost of preparing such report would be higher than its informative value. The value of payments incurred in relation to the leased asset and the total amount of future minimum lease payments are disclosed in item 7.4 of this report.

5.2. INTANGIBLE ASSETS

Accounting policy

Intangible assets acquired by the company are measured at cost less accumulated amortisation and accumulated impairment losses. Any expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

Subsequent costs

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of the following categories of intangible assets are as follows:

Patents and licences	2–10 years
Other	2-12 years

Judgements and estimates

Amortisation rates are determined on the basis of the expected useful lives of intangible assets, and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

01.01.-31.12.2018	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**33,107**	**26,459**	**9,887**	**69,453**
Purchase	1,735	1,735	-	3,470
Investment outlays	-	14,439	-	14,439
Reclassifications	2,531	(13,358)	9,092	(1,735)
Activated costs	-	548	-	548
Gross value of intangible assets at the end of the period	**37,373**	**29,823**	**18,979**	**86,175**
Accumulated amortisation at the beginning of the period	(30,715)	-	(4,595)	**(35,310)**
Annual amortisation charge	(1,164)	-	(3,434)	(4,598)
Accumulated amortisation at the end of the period	**(31,879)**	**-**	**(8,029)**	**(39,908)**
Recognition	-	(210)	-	(210)
Impairment losses at the end of the period	**-**	**(210)**	**-**	**(210)**
Net value of intangible assets at the beginning of the period	**2,392**	**26,459**	**5,292**	**34,143**
Net value of intangible assets at the end of the period	**5,494**	**29,613**	**10,950**	**46,057**

01.01.-31.12.2017	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**31,745**	**5,578**	**5,188**	**42,511**
Purchase	929	5,628	4,699	11,256
Investment outlays	-	21,300	-	21,300
Reclassifications	419	(6,047)	-	(5,628)
Activated costs	14	-	-	14
Gross value of intangible assets at the end of the period	**33,107**	**26,459**	**9,887**	**69,453**
Accumulated amortisation at the beginning of the period	(29,991)	-	(3,269)	**(33,260)**
Amortisation for the period	**(724)**	**-**	**(1,326)**	**(2,050)**
Annual amortisation charge	(724)	-	(1,326)	(2,050)
Liquidation	-	-	-	-
Accumulated amortisation at the end of the period	**(30,715)**	**-**	**(4,595)**	**(35,310)**
Net value of intangible assets at the beginning of the period	**1,754**	**5,578**	**1,919**	**9,251**
Net value of intangible assets at the end of the period	**2,392**	**26,459**	**5,292**	**34,143**

In 2018, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 4%, whereas in 2017 it amounted to approx. 8%.

CIECH S.A. is the owner of all intangible assets held. The largest item in the Company's intangible assets is the right to market with the carrying amount of PLN 3,338 thousand.

As at 31 December 2018, collateral was established on all intangible assets (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

An increase in capital expenditure in 2018 was driven by expenditure related to the implementation of the SAP system.

Amortisation of intangible assets was included in the following line items of the statement of profit or loss:

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2018	01.01.-31.12.2017
General and administrative expenses	(1,166)	(1,204)
Selling costs	(3,432)	(846)
TOTAL	**(4,598)**	**(2,050)**

The Company does not have intangible assets with indefinite useful life. In the current period changes in accounting estimates did not have a material impact and it is not expected that they will have a material impact in future periods.

As at 31 December 2018, future commitments arising from agreements concerning acquisition of intangible assets amounted to PLN 220 thousand (in the comparable period: PLN 1,359 thousand).

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

In the reporting period and in the presented comparable period, the Company did not incur any expenditure on development activities.

5.3. LONG-TERM FINANCIAL ASSETS

Accounting policy

Shares in subsidiaries and associates are stated at purchase price less any impairment losses.

Loans after initial recognition are measured at amortised cost using the effective interest method less any impairment losses.

Accounting policy concerning financial instruments is presented in note 8.1.

Judgements and estimates

Accounting policy concerning judgements and estimates is presented in note 3.5.

NON-CURRENT FINANCIAL ASSETS	31.12.2018	31.12.2017
Shares	2,184,468	1,710,871
Loans granted	142,861	118,180
Derivatives	11,859	35,086
TOTAL	**2,339,188**	**1,864,137**

Change in long-term stocks and shares	01.01.-31.12.2018	01.01.-31.12.2017
Gross value at the beginning of the period	**2,115,826**	**2,015,879**
Purchase	209,721	100,600
Sales/liquidation	152	653
Gross value at the end of the period	**2,325,395**	**2,115,826**
Impairment update at the beginning of the period	**(404,955)**	**186,580**
Recognition	(2,096)	(218,375)
Reversal/usage	266,124	-
Impairment update at the end of the period	**(140,927)**	**(404,955)**
Net value of the shares at the beggining of the period	**1,710,871**	**1,829,299**
Net value of the shares at the end of the period	**2,184,468**	**1,710,871**

Change in liabilities due to Long-term loan	31.12.2018	31.12.2017
Gross value at the beginning of the period	118,180	612,669
Grant	148,415	150,000
Repayment	-	(10,000)
Reclassfication to/from short-term items	(118,180)	(633,846)
Foreign exchange differences	(3,420)	(643)
Gross value at the end of the period	**144,995**	**118,180**
Impairment update at the beginning of the period	-	(24,250)
OB correction - recognition of impairment losses according to IFRS 9	(1,739)	-
Recognition	(2,134)	-
Reversal	1,739	7,886
Reclassification to shares	-	16,364
Closing balance	**(2,134)**	**-**
Carrying amount of loans at the beginning of period	**116,441**	**588,419**
Carrying amount of loans at the end of the period	**142,861**	**118,180**

Change in the gross value of long-term shares results primarily from:

- acquisition of shares in Proplan Plant Protection Company, S.L. – PLN 203,866 thousand. See note 6.4 for a description of this transaction,
- acquisition of shares in the increased share capital of CIECH R&D Sp. z o.o. – PLN 5,700 thousand,

In 2018, CIECH S.A. granted long-term loans to its subsidiaries:

- CIECH Soda Polska S.A. — in the amount of PLN 37,495 thousand,
- CIECH Soda Deutschland GmbH & Co. KG in the amount of PLN 107,500 thousand (EUR 25,000 thousand at the mid rate quoted by NBP on 31 December 2018)

The change in long-term loans granted resulted from unrealised foreign exchange differences on the revaluation of loans as at the balance sheet date.

The main items which affect the decrease in long-term loans granted are as follows:

- reclassification of loans granted to the following companies to short-term loans:
    - CIECH Nieruchomości S.A. – in the amount of PLN 24,250 thousand
    - CIECH Soda Polska S.A. – in the amount of PLN 74,412 thousand
    - CIECH Vitrosilicon S.A. – in the amount of PLN 19,518 thousand,

As at 31 December 2018, collateral was established on all long-term receivables (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

Ciech S.A. analyses its involvement in the subsidiaries on the basis of their net assets as at the balance sheet date. If any evidence of impairment is identified, the Company estimates the recoverable amount. Due to the occurrence of premises, CIECH S.A. analysed the recoverability of involvement in subsidiaries. The recoverable value applied was the value in use estimated based on the discounted cash flows determined based on five-year financial plans of the subsidiaries. The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for domestic companies was: 9.1% – for cash flows in PLN, 7.5% – for cash flows in EUR and 9.8% – for cash flows in USD;
- the weighted average cost of capital for SDC GmbH for cash flows in EUR was 6.6%;
- the weighted average cost of capital for Proplan Plant Protection Company, S.L. was 7.7% – for cash flows in EUR and 9.9% – for cash flows in USD;
- the assumed growth rate for the residual period was 2.0% for both the domestic companies and for the German company.

Based on analyses conducted, the Management Board of CIECH S.A. decided to recognise/reverse impairment losses on involvement in, among others, the following companies:

- recognition of impairment losses:
    - Ciech Nieruchomości S.A. — impairment loss on shares in the amount of PLN 1,636 thousand,
    - CIECH Group Financing AB — impairment loss on shares in the amount of PLN 241 thousand,
- reversal of impairment losses:
    - CIECH Trading S.A. — reversal of impairment loss on shares in the amount of PLN 5,628 thousand,
    - SDC GmbH — reversal of impairment loss on shares in the amount of PLN 260,494 thousand.

According to the Board's estimates:

- in the case of the SDC GmbH Group, a change in the weighted average cost of capital by 1 pp without changing other factors will not change the carrying value of shares,
- in the case of the Ciech Tradin S.A., a decrease in the average weighted cost of capital by 2.8 pp without changing the other factors would lead to equalization of recoverable amount with the carrying amount - the entire revaluation write-down would have been reversed

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CARRYING AMOUNT OF SHARES IN RELATED ENTITIES

No		Registered office	31/12/2018	31/12/2017	The Company's direct share in the share capital/ total number of votes as at 31 December 2018	The Company's direct share in the share capital/ total number of votes as at 31 December 2017	Core activities
	Subsidiaries						
1.	SDC GmbH	Stassfurt – Germany	797,471	536,977	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
2.	CIECH Soda Polska S.A.	Inowrocław	553,098	553,098	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
3.	CIECH Sarzyna S.A.	Nowa Sarzyna	295,947	295,947	100%	100%	Manufacture of plastics, manufacture of pesticides and other chemical products.
4.	CIECH Soda Romania S.A.	Rm. Valcea - Rumunia	111,000	111,000	98.74%	98.74%	Manufacture of other basic inorganic chemicals, wholesale of chemical products.
5.	CIECH Trading S.A.	Warsaw	59,156	53,528	100%	100%	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of food and feed additives, wholesale and distribution of acids, bases and other liquid chemicals.
6.	CIECH Pianki Sp. z o.o.	Bydgoszcz	57,451	57,451	100%	100%	Manufacture of organic and other inorganic chemicals.
7.	VERBIS ETA Sp. z o.o. SKA	Warsaw	37,971	37,971	100%	100%	Financing activities, direct lending to the CIECH Group companies
8.	CIECH R&D Sp. z o.o.	Warsaw	45,715	40,015	100%	100%	Granting licences to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta" for business activity purposes, research and developments activities.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

No		Registered office	31/12/2018	31/12/2017	The Company's direct share in the share capital/ total number of votes as at 31 December 2018	The Company's direct share in the share capital/ total number of votes as at 31 December 2017	Core activities
9.	CIECH Vitrosilicon S.A.	Iłowa	12,302	12,302	83.03%	83.03%	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.
10.	CIECH Transclean Sp. z o.o.	Bydgoszcz	3,455	3,455	100%	100%	International transport of liquid chemicals
11.	Gamma Finanse Sp. z o.o.	Warsaw	2,889	2,889	100%	100%	Financing activities.
12.	Ciech Group Financing AB	Sweden	1,815	2,056	100%	100%	Financing activities.
13.	VERBIS ETA Sp. z o.o.	Warsaw	5	5	100%	100%	Other activities.
14.	Bosten S.A.	Warsaw	-	100	100%	90%	Other research and experimental development on natural sciences and engineering,
15..	Ciech Nieruchomości S.A.	Warsaw	-	1,636	99.2%	99.2%	Buying and selling of own real estate.
15.	Proplan Plant Protection Company S.L.	Madrid	203,866	-	100%	-	Production and sales of crop protection chemicals.
16.	Janikosoda S.A.	Warsaw	623	737	17.6%	17.6%	Since March 2017, the Company has not carried out any operating activities.
	Other subsidiaries		**841**	**841**			
	Associates		**863**	**863**			
	Carrying amount of shares in related entities		**2,184,468**	**1,710,871**			

5.4. INVENTORIES

Accounting policy

Raw materials and goods are measured at cost being the purchase price increased by other costs incurred in bringing the asset to its present location and condition or place on the market but not higher than the selling price possible to achieve.

The cost of inventory is based on the first-in first-out principle (FIFO).

Judgements and estimates

CIECH S.A. recognises inventory impairment allowances for damaged and slow moving inventory. Inventory impairment allowances are also recognised for inventory with a carrying amount that exceeds the realisable net selling price. Reversal occurs as a result of the use or sales of inventory in the course of business activities while usage is the result of inventory being scrapped.

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INVENTORY	31.12.2018	31.12.2017
Materials	1	1
Goods	41,018	31,794
TOTAL	**41,019**	**31,795**

In the presented periods, inventories write-offs to net sales prices did not occur.

The value of inventories (taking into account write-downs to net selling prices) recognised as costs in 2018 amounted to PLN 1,935,829 thousand (in the comparable period: PLN 1,795,248 thousand).

As at 31 December 2018, collateral was established on all inventories (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

5.5. SHORT-TERM RECEIVABLES

Accounting policy

After initial recognition, current trade and other receivables are measured at the amortised cost using the effective interest method less any impairment losses.

Receivables denominated in foreign currencies are recognised at the average NBP exchange rate effective on the working day immediately preceding the date of the transaction, unless a different exchange rate was indicated in the customs declaration or another binding document.

At the reporting date, receivables denominated in foreign currencies are translated at the average exchange rate established for that date by the NBP except for prepayments made for deliveries, which are translated using sell exchange rate of the bank effective on the payment date.

Factoring

The Company uses non-recourse factoring services. The factor transfers advance payments to the Company's account in the full amount of invoices accepted for financing. The financing of receivables transferred is provided in various timeframes, therefore, as at the balance sheet date, there may be receivables which have not been financed yet and are reported as factoring receivables. Advance payments received are posted as factoring liabilities. In the statement of financial position, factoring receivables and liabilities are recognised on a net basis up to 90% of the value of advance payments received from the factor (the 90% limit results from the level of the receivables insurance). The remaining 10% of receivables value is reported as factoring receivables, and 10% of the value of advance payments received is reported as factoring liabilities.

Judgements and estimates

Impairment allowances are recognised on interest receivable on late payments of receivables, in the full amount of interest accrued. These allowances are recognised upon accrual, as at the due date or balance sheet date, and deducted from finance income from interest accrued.

The Entity estimates allowances always at the amount of long-term expected credit losses, regardless of whether there is an evidence of a material increase in credit risk.

At each balance sheet date, the Entity estimates allowances for all receivables regardless of their repayment status. The Entity estimates impairment allowances primarily on the basis of portfolio PD ratios estimated on the basis of historical observations for debt portfolios with similar characteristics. If it is not possible to estimate portfolio ratios, the Group permits the use of individual parameters (benchmark or expert parameters). Pursuant to Article 163 of the CRR[1], a PD ratio may not be lower than 0.03%.

In addition, regardless of the foregoing, the Entity recognises impairment allowances in respect of receivables:

1. from debtors in liquidation or bankruptcy, up to the amount not guaranteed or secured in another manner, as reported to a receiver or judge-commissioner during bankruptcy proceedings;
2. from debtors where a bankruptcy petition has been dismissed, if the debtor's assets are not sufficient to cover the cost of bankruptcy proceedings – in full;
3. contested by debtors (disputed receivables) and where payments due are delayed and either the debtor's financial standing makes the collection no longer probable – up to the amount of receivables not guaranteed or secured in another manner;

[1] *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

4. receivables claimed in court.

Moreover, allowances in the full amount of receivables are recognised in relation to receivables that are more than 180 days past their maturity as at the balance sheet date.

The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

Impairment allowances on receivables are charged to other operating expenses. Allowances are also recognised for amounts that increase the value of receivables, including late payment interest, for which impairment allowances were previously recognised.

TRADE AND OTHER RECEIVABLES	31.12.2018	31.12.2017
Trade receivables, including:	280,416	217,339
- up to 12 months	280,363	217,333
- prepayments for inventory	53	6
Public and legal receivables (excluding income tax)	33,442	19,404
Insurance receivables	295	306
External services	1,108	691
Factoring receivables	36,528	23,255
Assets due to continuous involvement	2,103	1,821
Receivables from cashpool	42,219	12,524
Other receivables	4,562	5,425
NET TRADE AND OTHER RECEIVABLES	**400,673**	**280,765**
Impairment allowances with respect to trade receivables including	(15,130)	(13,164)
- impairment allowance recognized in the current reporting period	(2,124)	(1,363)
Impairment allowances with respect to other current receivables including	(16,361)	(15,701)
- impairment allowance recognized in the current reporting period	(17)	-
GROSS TRADE AND OTHER RECEIVABLES	**432,164**	**309,630**

Fair value of trade receivables and other receivables does not differ significantly from their carrying value.

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the period of delay in payments. As at 31 December 2018, the asset from continuing involvement amounted to PLN 2,103 thousand. The value of factoring assets derecognised from the statement of financial position is PLN 152,808 thousand (PLN 146,733 thousand in the comparable period).

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**(28,865)**	**(33,420)**
Opewning balance adjustment due to IFRS 9	(620)	-
Recognized	(2,141)	(1,363)
Reversed	694	4,026
Used	261	471
Exchange differences	(820)	1,421
Closing balance	**(31,491)**	**(28,865)**

The principles for recognising impairment allowances for short-term receivables are described above, in the “Accounting Policy” section.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2018	31.12.2017
Up to 1 month	61,159	31,753
Between 1 and 3 months	13,995	738
3 to 6 months	5,531	2,660
6 months to 1 year	6,989	565
Above 1 year	11,868	11,487
Total (gross) past due trade receivables	**99,542**	**47,203**
Impairment allowances on past due trade receivables	(12,389)	(11,529)
Total (net) past due trade receivables	**87,153**	**35,674**

Terms of transactions with related entities have been presented in note 9.3.

Commercial contracts concluded by CIECH S.A. include various terms of payment of trade receivables depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

As at 31 December 2018, collateral was established on all receivables (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

5.6. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Loans after initial recognition are measured at amortised cost using the effective interest method less any impairment losses.

Accounting policy concerning financial instruments is presented in note 8.1.

Judgements and estimates

Accounting policy concerning judgements and estimates is presented in note 3.5.

SHORT-TERM FINANCIAL ASSETS	31.12.2018	31.12.2017
Derivatives	16,060	24,354
Loans granted	990,404	987,950
Total (net) short-term financial assets	**1,006,464**	**1,012,304**
Impairment of short-term financial assets	(18,126)	(49,345)
Total (gross) short-term financial assets	**1,024,590**	**1,061,649**

Change in liabilities due to Short-term loan	31.12.2018	31.12.2017
Gross value at the beginning of the period	**1,037,295**	**343,218**
Grant	81,601	251,644
Repayment	(184,937)	(174,387)
Reclassification from long-term positions	118,180	633,846
Cancelation - liquidation of the company	(49,035)	-
Exchange differences	5,426	(17,026)
Gross value at the end of the period	**1,008,530**	**1,037,295**
Impairment update at the beginning of the period	**(49,345)**	**(130,300)**
OB adjustment- recognition of impairment losses according to IFRS 9	(14,544)	-
Recognition	(17,816)	(2,194)
Reversal	14,544	83,149
Usage - liquidation of the company	49,035	-
Closing balance	**(18,126)**	**(49,345)**
Carrying amount of loans at the beginning of period	**973,406**	**212,918**
Carrying amount of loans at the end of the period	**990,404**	**987,950**

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As at 31 December 2018, collateral was established on all short-term receivables (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

Material items affecting the change in short-term loans including interests are as follows:

- granting of a loan to Ciech Soda Deutschland GmbH & Co. KG in the amount of PLN 38,658 thousand (EUR 9,000 thousand),
- granting of a loan to Vasco Sp. z o.o. in the amount of PLN 198 thousand,
- interest accrued on loans granted in the amount of PLN 39,910 thousand,
- reclassification of long-term loans granted to the following companies to short-term investments:

CIECH Nieruchomości S.A.	in the amount of PLN 24,250 thousand
CIECH Soda Polska S.A.	in the amount of PLN 74,412 thousand
CIECH Vitrosilicon S.A.	in the amount of PLN 19,518 thousand

- repayment of loans by subsidiaries (CIECH Vitrosilicon SA in the amount of PLN 10,000 thousand, CIECH Trading SA in the amount of PLN 20,000 thousand, CIECH Pianki Sp z o.o. in the amount of PLN 18,000 thousand, CIECH Soda Polska SA in the amount of PLN 40,000 thousand, CIECH Energy Deutschland GmbH in the amount of EUR 7,692 thousand (PLN 31,517 thousand), CIECH Soda Deutschland GmbH & Co. KG in the amount of EUR 4,100 thousand or PLN 16,910 thousand) and repayment of interest of PLN 48,510 thousand
- Expiry of the right of loan and interest rate due to liquidation of company Ciech Cerium Sp z o.o. SKA ine the amount of PLN 49,035 thousand

The change in short-term loans resulted also from unrealised foreign exchange differences on the revaluation of loans as at the balance sheet date.

Based on analyses conducted, the Management Board of CIECH S.A. decided to recognise impairment losses on short-term loans granted to the following companies:

- Vasco Polska sp. z o.o. – impairment loss on the loan granted in the amount of PLN 218 thousand
- CIECH Nieruchomości S.A. – impairment loss on the loan granted in the amount of PLN 2,800 thousand.

The balance of impairment losses was also affected by:

- the impairment loss of PLN 49,035 thousand on a loan granted to CIECH Cerium sp. z o.o., utilised due to its expiry by virtue of law,
- impairment loss of PLN 14,797 thousand that was recognised and impairment loss of PLN 14,544 thousand that was reversed in line with the requirements of IFRS 9.

5.7. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include cash in hand and bank deposits repayable on demand. Current investments that are not subject to significant changes in value and that may be easily exchanged for a determinable amount of cash and that form an integral part of the Entity's cash management are recognised as cash and cash equivalents for the purposes of the statement of cash flows.

At the reporting date, any foreign currencies in bank accounts and on hand are measured at the average exchange rate for a given currency, quoted by the President of the NBP.

For cash and cash equivalents for which no evidence of impairment due to credit risk has been identified, impairment allowances are estimated using individual parameters determined on the basis of benchmarks (using information on bank ratings), scaled down to the horizon for estimating expected credit losses.

For cash and cash equivalents for which there is evidence of impairment due to credit risk, the Entity analyses recoveries using probability-weighted scenarios.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

CASH AND CASH EQUIVALENTS	31.12.2018	31.12.2017
Bank accounts	44,332	218,927
Short-term deposits	10,673	156,455
Cash in hand	20	11
Impariment in accordance with IFRS 9	(37)	-
Cash and cash equivalents – presented in the statement of financial position	**54,988**	**375,393**
Cash and cash equivalents – presented in the cash flow statement	**54,988**	**375,393**

The effective interest rates of short-term bank deposits are similar to the nominal interest rates, and fair value of short-term bank deposits is not significantly different from carrying value. Interest rates are based on WIBOR, EURIBOR and LIBOR.

As at 31 December 2018, collateral was established on all cash and cash equivalents (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under a term loan taken out, RCF loan and overdraft loans.

As at 31 December 2018 and as at 31 December 2017, there was no restricted cash and cash equivalents in CIECH S.A.

6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

CIECH S.A.'s capital structure consist of its debts, including the credit facilities presented in note 7.1, cash and cash equivalents and equity, including shares issued, reserve capital and retained earnings.

CIECH S.A. manages its capital in order to ensure its ability to continue as a going concern and, at the same time, maximize returns for stakeholders by optimising the debt to equity ratio. In 2017-2018 there were no changes in aims, principles and processes of capital management.

6.2. EQUITY

Accounting policy

CIECH S.A.'s share capital is disclosed at nominal value, adjusted by the effects of hyperinflation in the years 1989-1996. When shares are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a change in equity. The purchased shares are presented as a deduction from total equity.

A liability for a dividend payable is recognised when authorised.

Net profit (loss) is presented in equity under retained earnings.

As at 31 December 2018, the carrying amount of the share capital of CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment. As at the date of adopting the IFRS, i.e. 1 January 2004, the share capital of the Company was adjusted for hyperinflation between 1989 and 1996. The hyperinflation adjustment of PLN 24,114 thousand was charged to retained profits.

The shares of CIECH S.A. are listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The share capital of CIECH S.A. amounts to PLN 263,500,965 and is divided into 52,699,909 shares with a nominal value of PLN 5 each, including:

- 20,816 A-series ordinary bearer shares,
- 19,775,200 B-series ordinary bearer shares,
- 8,203,984 C-series ordinary bearer shares,
- 23,000,000 D-series ordinary bearer shares,
- 1,699,909 E-series ordinary bearer shares.

The shares of all series are ordinary shares and do not carry any additional rights, preferences or restrictions as to dividend distribution or return of capital. Share capital is fully paid up.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

To the best knowledge of the Company, as at the day of approving this report, entities holding significant blocks of shares (at least 5%) are the entities listed below:

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	Ordinary bearer	3,900,000	3,900,000	7.40%	7.40%
Other	Ordinary bearer	21,847,857	21,847,857	41.46%	41.46%

** In accordance with information dated 9 June 2014 provided by Shareholder under Article 77(7) and Article 69(1)(1) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (CR 26/2014).*

*** on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of Shareholders of CIECH S.A. on 28 January 2019, CR 5/2019 prepared and published pursuant to Article 70(3) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2009, No 185, item 1439).*

The percentage share of above-listed shareholders in the share capital of CIECH S.A. equals the percentage share in the number of votes at the General Shareholders Meeting of CIECH S.A.

Treasury shares

In 2018 and in the comparable period, CIECH S.A. did not purchase or hold treasury shares.

Share premium

The share premium arose from the surplus in excess of nominal value achieved upon the issue of C, D and E series shares.

Other reserve capital

The table below presents the balances of other reserve capital, consisting of the following items:

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2018	31.12.2017
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
TOTAL	**76,199**	**76,199**

Cash flow hedge reserve

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies. Detailed information is presented in note 8.2.

Actuarial gains

Actuarial valuation reserve comprises actuarial gains or losses, i.e. the effects of differences between the previous assumptions made in the valuation of employee benefit provisions and what has actually occurred and the effects of changes in assumptions for these provisions, including change in discount rate.

6.3. DIVIDENDS PAID OR DECLARED

Until the date of approval of the financial statements for publication, the Management Board of CIECH SA has not adopted a resolution on the proposed distribution of net profit for 2018.

On 22 June 2018, the Ordinary General Meeting adopted a resolution to allocate the following to the payout of dividend in the amount of PLN 395,249 thousand:

- the entire net profit earned by CIECH S.A. in 2017, amounting to PLN 243,907 thousand;
- a part of profits included in the supplementary capital, amounting to PLN 151,342 thousand.

The dividend record and payment dates were set respectively for 2 July 2018 and 31 August 2018.

6.4. BUSINESS COMBINATIONS AND ACQUISITION OF INTEREST

There were no business combinations in the presented periods.

In 2018, changes in the CIECH Group's structure that occurred in relation to the companies in which CIECH S.A. held shares, either directly or indirectly, were related to, among others:

1) changes in control from indirect to direct control

On 3 January 2018, the Court registered the increase of the share capital of Ciech Nieruchomości S.A. The Company's share capital was increased by PLN 18,000 thousand by way of issue of 900 million series D bearer shares with the nominal value and issue price of PLN 0.02 per share. CIECH SA acquired series D shares in exchange for cash, thus control over the Company changed from indirect to direct. At present, CIECH S.A. holds 99.18% of this Company's share capital.

2) acquisition and increased shareholding in companies

- **CIECH Cerium Sp. z o.o. Sp. k.**

On April 2018 at the general meeting of partners of CIECH Cerium Sp. z o.o. Sp. k., it was decided to express consent for CIECH S.A. to make a new contribution in the amount of PLN 150 thousand, therefore the current contribution of CIECH S.A. amounts to PLN 625 thousand.

- **CIECH R&D Sp. z o.o.**

On 4 October 2018, the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. resolved to increase the Company's share capital by PLN 5 thousand, i.e. from PLN 40,000 thousand to PLN 40,005 thousand through creation of 100 new, equal and indivisible shares with a value of PLN 50 per share. The new shares were earmarked for acquisition by CIECH S.A. in exchange for a cash contribution of PLN 5,700 thousand, where the amount of PLN 5,695 thousand represents the share premium allocated to the supplementary capital. By way of a representation of 4 October 2018, CIECH S.A. acquired 100 new shares. The court registered the share capital increase on 30 October 2018.

On 22 November 2018, the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. increased the Company's share capital by PLN 2 thousand, i.e. from PLN 40,005 thousand to PLN 40,007 thousand through creation of new, equal and indivisible shares with a value of PLN 50 per share. The right to acquire 40 new shares with a total nominal value of PLN 2 thousand was granted to CIECH S.A. in exchange for a cash contribution of PLN 2,200 thousand, where the amount of PLN 2,198 thousand represented the share premium allocated to the supplementary capital. The court registered the share capital increase on 23 January 2019.

- **Vasco Polska Sp. z o.o.**

On 14 November 2018, the Extraordinary Shareholders' Meeting of Vasco Polska sp. z o.o. increased the Company's share capital by PLN 500, i.e. from PLN 50 thousand to PLN 50.5 thousand through creation of 10 new, equal and indivisible shares with a nominal value of PLN 50 per share. The pre-emptive right of existing shareholders to acquire new shares in the increased share capital pro rata to their respective holdings in the share capital was waived. The right to acquire the new shares was granted to CIECH S.A. in exchange for a cash contribution of PLN 130 thousand, where the amount of PLN 129.5 thousand represents the share premium and was allocated to the supplementary capital. By way of a representation of 15 November 2018, CIECH S.A. acquired the new shares. The Court registered the increase of the Company's share capital on 11 January 2019.

On 15 November 2018, CIECH S.A. and a minority shareholder signed an agreement on the sale of 100 shares in Vasco Polska sp. z o.o. with a nominal value of PLN 50 per share, representing 10% of the Company's share capital in total. Following the aforementioned operations, CIECH S.A. was registered by the Court as the sole shareholder of the Company on 11 January 2019.

- **Proplan Plant Protection Company S.L.**

On 26 July 2018. CIECH SA acquired 100% of shares in Proplan Plant Protection Company S.L. ("Proplan") and obtained control of the supplier of crop protection products.

The acquisition price was determined as follow:

- EUR 40,053 thousand paid in cash at the acquisition date (90% of the acquisition price from the share purchase agreement),
- EUR 3,614 thousand of discounted deferred payment (the remaining 10% of the purchase price), payable in cash in 4 installments of EUR 1,115 thousand on subsequent anniversaries (in 2019-2022 respectively) of the takeover of control over Proplan (nominal value of EUR 4,461 thousand) and
- EUR 3,706 thousand of discounted conditional deferred payment depending on Proplan's results for 2018 and 2019, payable respectively in 2019 and 2020 (current estimation of nominal payments is EUR 4,270 thousand).

3) dissolution of a partnership

- **CIECH Cerium sp. z o.o. sp.k.**

On 15 November 2018, the Partners' Meeting of CIECH Cerium spółka z ograniczoną odpowiedzialnością spółka komandytowa decided to dissolve the Partnership and agreed on the manner of terminating the Partnership's operations without liquidation. The Partnership's operations were terminated without liquidating the Partnership, by dividing the Partnership's assets on an in-kind basis, without the need to convert them into cash. The Partnership's assets were first allocated for the repayment of its liabilities, including any known non-matured or disputable liabilities, except for liabilities towards the Partners. According to the resolution of the Partners' Meeting, other assets of the Partnership have been distributed among the Partners in the proportion in which they participate in the Partnership's profit. The Partnership was deleted from the National Court Register on 27 November 2018.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

7 LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT FINANCIAL LIABILITIES

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2018	31.12.2017
LONG-TERM	**1,333,695**	**1,130,482**
Loans and borrowings	1,333,695	1,130,482
SHORT-TERM	**493,601**	**413,516**
Loans and borrowings	415,936	295,559
Cash pooling liabilities	77,665	117,957
TOTAL	**1,827,296**	**1,543,998**

Reconciliation of changes in liabilities resulting from financial activities

	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**1,426,041**	**1,405,436**
Income from contracted debt	649,072	39,000
received funding	649,072	39,000
Calculation of interest	42,381	46,016
Debt payments	(375,372)	(49,396)
refund of capital	(334,515)	(5,438)
interest paid	(40,857)	(43,958)
Foreign exchange differences on borrowing in foreign currencies	7,200	10
Valuation	2,011	(17,639)
Others	(1,702)	2,614
Closing balance	**1,749,631**	**1,426,041**

Debt financing

The CIECH S.A.'s debt financing is secured mainly through loans made available to CIECH S.A. under the Facilities Agreement dated 9 January 2018:

1. loan agreements of 9 January 2018:

- term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 31 December 2018 was PLN 1,341,520 thousand),
- revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 31 December 2018 was PLN 250,000 thousand).

2. short-term liability on account of loans, with limit PLN 100,000 thousand and EUR 10,000 thousand loan agreements of 28 and 29 August 2018 (the amount of credits used as at 31 December was PLN 32,873 thousand.

Detailed information about loan liabilities is disclosed in the Management Board Report on activities of the CIECH Group and CIECH S.A. for 2018, in section 4.6.

As at 31 December 2018, CIECH S.A. has a short-term liability on account of loans received in the amount of PLN 132,444 thousand, including:

- a loan from Gamma Finanse sp. z o.o. in the amount of PLN 93,000 thousand
- a loan from Verbis Eta Sp. z o.o. SKA in the amount of PLN 35,000 thousand
- interest accrued on loans in the amount of PLN 4,444 thousand.

Interest rates

The interest rate of the Loans is a floating rate and it is determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt index to EBITDA. The initial value of the margin was 1.5%. The current value of the margin is 1%. Based on the level of the net debt ratio to the operating result plus amortization as at the end of 2018, the loan margin will increase to 1.5%.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Information about the financial covenants included in loan agreements

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the balance sheet. Under the Facilities Agreement dated 29 October 2015, CIECH S.A. and its selected subsidiaries were obliged to, among others, maintain a certain level of net leverage ratio for the Group specified in the Facilities Agreement (the ratio of the CIECH Group's consolidated net debt to consolidated EBITDA of the CIECH Group calculated according to the guidelines in the amount of at least 4.0, measured at the end of a year and first six months of a year). As at the balance sheet date, i.e. 31 December 2018, this ratio was maintained and amounted to 2.4.

7.2. OTHER NON-CURRENT LIABILITIES

Accounting policy, judgements and estimates

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2018	31.12.2017
Derivatives	38,181	41,528
Liabilities due to purchase of shares and other financial assets	21,235	-
TOTAL	**59,416**	**41,528**

The balance of liabilities due to purchase of shares comprises long-term portion of the deferred payment for the acquisition of Proplan Plant Protection Company, S.L. - see note 6.4 for more information.

7.3. CURRENT TRADE AND OTHER LIABILITIES

Accounting policy

Trade and other liabilities are classified as current or non-current based on the following principles:

- ✓ trade liabilities are reported as current liabilities, regardless of maturity,
- ✓ other liabilities due to be settled within 12 months of the balance sheet date are classified as current liabilities,
- ✓ other payables, which do not meet the current liability conditions, are classified as non-current liabilities.

Liabilities denominated in foreign currencies are recognised at the NBP's average exchange rate effective on the last working day before the date of transaction.

At the reporting date foreign currency denominated liabilities are translated at the average exchange rate announced for that day by the NBP except for received prepayments. Currency translation differences arising upon the repayment of a liability (realised) or its valuation (unrealised) are presented within financial income or expense. Prepayments for deliveries denominated in foreign currencies are recognised at the exchange rate applicable as at the transaction day.

Factoring

The Company uses non-recourse factoring services. The factor transfers advance payments to the Company's account in the full amount of invoices accepted for financing. The financing of receivables transferred is provided in various timeframes, therefore, as at the balance sheet date, there may be receivables which have not been financed yet and are reported as factoring receivables. Advance payments received are posted as factoring liabilities. In the statement of financial position, factoring receivables and liabilities are recognised on a net basis up to 90% of the value of advance payments received from the factor (the 90% limit results from the level of the receivables insurance). The remaining 10% of receivables value is reported as factoring receivables, and 10% of the value of advance payments received is reported as factoring liabilities.

Judgements and estimates

At the reporting date trade payables are measured at amortised cost (i.e. they are discounted using the effective interest method) and increased by any applicable late interest accrued.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Late interest is not accrued when a formal waiver is received from the counterparty. In all other cases such interest is accrued and recognised in accordance with the following principles:

- ✓ on an ongoing basis, based on interest notes received;
- ✓ in estimated amounts, with such estimates based on comparison of interest charged in the past by a counterparty to the related amounts owed.

CURRENT TRADE AND OTHER LIABILITIES	31.12.2018	31.12.2017
Trade liabilities and advances taken	476,681	398,885
- in up to 12 months	471,094	396,908
- prepayments received for supplies	5,587	1,977
Public and legal liabilities (excluding income tax)	-	282
Liabilities for purchase of property, plant and equipment	5,851	15,705
Financial instruments liabilities	6,587	2,141
Liabilities to employees	836	765
Payroll liabilities	1,928	15,070
Holiday leave accrual	2,721	2,326
Materials and energy consumption	-	131
External services	649	2,731
Social security and other employee benefits	277	1,388
Factoring liabilites	16,979	16,304
Other	20,386	20,715
TOTAL	**532,895**	**476,443**

Trade liabilities do not bear interest. Commercial contracts concluded by CIECH S.A. include various terms of payment of trade liabilities depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

7.4. OPERATING LEASES

Accounting policy

A financial lease is when, and only when, all the risks and rewards incidental to ownership of the subject matter of the contract (including a lease contract) remain with the financing party — in such case the Company does not recognise the asset as property, plant and equipment. Costs are recognised proportionally to the term of the agreement (on a straight line basis) unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct costs incurred before the conclusion of a lease contract, if substantial, are settled over time, proportionally to lease payments disclosed in financial statements, or are recognised as an expense in the statement of profit or loss in the period in which they are incurred.

All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

The lessee recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Assets used in CIECH S.A. under operating lease agreements include passenger cars and premises – mainly office and warehouse space. The operating lease agreement for cars is a renewable agreement, making it possible to acquire an asset at its estimated market value at the end of its use. The Company is not obliged to purchase the leased assets.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

In the financial year 2018, the costs of lease payments were as follows:
- lease of passenger cars – PLN 909 thousand (PLN 830 thousand for the comparable period),
- lease of space – PLN 5,107 thousand (PLN 4,868 thousand for the comparable period).

Total amounts of future minimum lease payments are presented in the table below:

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2018	31.12.2017
Up to 1 year	4,821	5,824
Between 1 and 5 years	15,500	23,565
Over 5 years	17,954	-
TOTAL	**38,275**	**29,389**

These payments reflect only lease payments (excluding non-lease payments).

7.5. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Provisions for retirement and disability benefits

Based on the Company's remuneration plan, the employees of CIECH S.A. are entitled to retirement and disability benefits. The Company's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years.

Net defined benefit liabilities are calculated separately for each plan by estimation of future payments required to settle the obligation resulting from employee service in the current and prior periods (discounted to its present value and reduced by the fair value of plan assets). The discount rate is the rate of return for low-risk debt securities with similar maturity date as the Company's liabilities as at the end of the reporting period. An appropriate estimation is made by an authorised actuary with the application of forecast discounted unit right method.

The Company recognises in the statement of profit or loss:

- ✓ current service cost, which is the change in liability resulting from increase in value of the defined benefit obligation due to increase in the period of service and age of employees;
- ✓ past service cost connected with plan amendment during the current period;
- ✓ interest – change in liability resulting from unwinding of discount.

The Company recognises in other comprehensive income actuarial gains and losses – the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions and change in discount rate.

Judgements and estimates

The amount of the provision for employee benefits is determined based on actuarial valuations performed by independent professional firms. By actuarial valuation estimates are made regarding the rotation in employment, wage growth, discount rates and inflation.

PROVISIONS FOR EMPLOYEE BENEFITS	LONG-TERM		SHORT-TERM	
	01.01.-31.12.2018	01.01.-31.12.2017	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**436**	**447**	**400**	**313**
Recognition	325	83	55	60
Use and reversal	-	-	(221)	(67)
Reclassification from lon-gterm do short-term provision	(187)	(94)	187	94
Closing balance	**574**	**436**	**421**	**400**

In 2018, short-term provision for employee benefits was recognised in the amount of PLN 55 thousand and a long-term provision for employee benefits was recognised in the amount of PLN 325 thousand, of which PLN 136 thousand was recognised in equity. In the comparable period, a provision for employee benefits included in equity and amounting to PLN 11 thousand was recognised.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Employee benefits are measured on the basis of actuarial valuations and including provision for retirement and disability benefits. A discount rate of 3.0% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. The discount rate applied is established in nominal value. At the same time, future inflation in the amount of 2.5% per annum was taken into account. The estimated nominal growth rate of 1.0% was applied. The remuneration growth rate of 1.0% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Company's estimations, a change in actuarial assumptions will not have a significant impact on financial results.

7.6. OTHER PROVISIONS

Accounting policy

A provision is recognised if, as a result of a past event, the Company has a present obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Management Board has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly and a reliable estimate can be made.

Judgements and estimates

For measurement of the provisions, the Company is required to make estimates, assumptions regarding discount rates, expected costs and payment terms.

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for liabilities	Provision for expected losses	Other provisions	TOTAL
01.01.-31.12.2018				
Opening balance	**6,179**	**29,387**	**507**	**36,073**
Recognition	68,713	90	-	68,803
Use and reversal	(1,085)	-	(507)	(1,592)
Closing balance	**73,807**	**29,477**	**-**	**103,284**
01.01.-31.12.2017				
Opening balance	**7,574**	**28,066**	**758**	**36,398**
Recognition	102	1,321	-	1,423
Use and reversal	(1,497)	-	(251)	(1,748)
Closing balance	**6,179**	**29,387**	**507**	**36,073**

The amount of provisions is an estimated value and may be subject to change during utilisation.

Short-term provision of PLN 103,284 thousand are related to potential claims (principal liability plus interest liabilities and litigation costs) resulting from litigation. An significant item is the provision for potential tax liability and default interest in the amount of PLN 43,700 thousand and PLN 23,511 thousand, respectively (see note 9.2 for more information).

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT.

8.1. FINANCIAL INSTRUMENTS

Accounting policy applicable as of 1 January 2018 (IFRS 9)

Principles of measurement after initial recognition/at the end of reporting period and presentation of financial instruments in financial statements

Category of assets or liabilities	Measurement	Recognition
Assets at fair value through profit or loss	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Financial assets measured at amortised cost	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Financial assets at fair value through other comprehensive income	At fair value	Changes from remeasurement at fair value are recognised in other comprehensive income. For debt instruments interest is recognised directly in profit or loss.
Purchased or originated credit impaired (POCI) assets	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Other financial liabilities	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the liability and are recognised in current period profit or loss.
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.

Impairment of financial assets

At each balance sheet date, the Entity assesses whether there has been a significant increase in credit risk for a single financial asset (financial instrument) since its initial recognition. If such a significant increase has taken place, the Entity estimates allowances in the amount of long-term expected credit losses. Otherwise, the Entity estimates allowances in the amount of 12-month expected credit losses, even if in previous periods allowances were recognised in the amount of long-term expected credit losses.

The Entity assumes that in the case of financial instruments that meet the definition of a low credit risk instrument as at a given balance sheet date, there has been no significant increase in credit risk and therefore the allowance is estimated at the amount of 12-month expected credit losses. The credit risk on a financial instrument is considered low for these purposes, if:

a) the financial instrument has a low risk of default,
b) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and
c) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

An external rating of "investment grade" is an example of an instrument that is considered by the Entity as having low credit risk.

The Entity considers that there has been a significant increase in credit risk for a given financial instrument, if there has been a delay in contractual payments of more than 30 days.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial (POCI) asset, the Entity measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. Regardless of the above criteria, the Entity considers that there has been an impairment loss in the event of a delay in payment of more than 180 days.
The amount of the write-down determined as a result of the above-mentioned estimates may be reduced if the Management Board possess reliable documents that indicate the receivables are secured and their payment is highly probable.
For financial assets for which no evidence of impairment due to credit risk has been identified, impairment allowances are estimated using individual parameters determined on the basis of benchmarks (using information on bank ratings) or values provided by experts, scaled down to the horizon for estimating expected credit losses.
For financial assets for which there is evidence of impairment due to credit risk, the Entity analyses recoveries using probability-weighted scenarios.

Trade receivables and contract assets are exceptions to this rule. For these categories of assets, the Entity may choose a simplified approach whereby write-downs are estimated over the lifetime horizon - right from the initial recognition of exposures.

Accounting policy applied until 31 December 2017 (IAS 39)

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets measured at amortised cost

If any objective evidence indicates that loans and receivables measured at amortised cost are impaired, the impairment loss is the amount of the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on unrecoverable receivables that have not yet been incurred) discounted at the original (i.e. determined at initial recognition) effective interest rate. The carrying amount of assets is reduced through the use of allowances. The amount of allowance is recognised in profit or loss.

The Company first assesses whether there is any objective evidence of impairment of individually significant financial assets, and also whether any indications of impairment exist in respect of financial assets that are not individually significant. If the analysis does not reveal any objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Company includes such an asset in a group of financial assets with similar credit risk and evaluates them collectively in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss was recognised or it was considered that the existing allowance should not change, are not taken into account when assessing the group of assets for impairment.

If in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. The subsequent reversal of the impairment loss is recognised in profit or loss to the extent that the asset's carrying amount at the reversal date does not exceed its amortised cost.

In particular, in relation to trade receivables from entities in liquidation or bankruptcy, or not admitted to bankruptcy, or in relation to receivables that are contested by debtors (disputed receivables), or where payments due are delayed and either the debtor’s financial standing makes the collection no longer probable or such delay exceeds 180 days, an impairment loss is recognised in the full amount due after taking into account the amounts of any existing security which the Management Board of the Company considers highly probable of execution.

Available-for-sale financial assets

If objective evidence indicates that available-for-sale financial assets are impaired, the amount of the difference between the asset’s acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and reclassified into profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Financial assets measured at cost

If objective evidence indicates that impairment may exist in respect of an unquoted equity instrument that is not recognised at fair value due to the fact that its fair value cannot be reliably measured, or a derivative which is linked to or must be settled through delivery of such an unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of its estimated future cash flows discounted at the current market rate of return for similar financial assets.

The main financial instruments disclosed in the statement of financial position of CIECH S.A. as at 31 December 2018 include:

Financial assets:

- cash and cash equivalents,
- loans granted,
- financial instruments with positive valuation,
- trade receivables,
- factoring receivables,
- cash pooling receivables.

Financial liabilities:

- term loan liabilities, revolving loan liabilities and overdraft liabilities,
- trade payables,
- financial instruments with negative valuation,
- loans liabilities,
- cash pooling liabilities,
- factoring liabilities.

Carrying amount of financial instruments

CLASSES OF FINANCIAL INSTRUMENTS	note	31.12.2018	31.12.2017	CATEGORIES OF FINANCIAL INSTRUMENTS
Cash and cash equivalents	*5.7*	54,988	375,393	Loans measured at amortized cost
Loans granted	*5.3;5.6*	1,133,265	1,106,130	Loans measured at amortized cost
Trade receivables	*5.5*	280,363	217,333	Loans measured at amortized cost
Factoring receivables	*5.5*	36,528	23,255	Loans measured at amortized cost
Hedging derivatives with positive value	*5.3; 5.6*	27,521	53,530	Valued in fair value through income statement
Derivative instruments recognized in financial assets designated as hedging instruments	*5.3; 5.6*	398	5,910	Hedging instruments
Cash pooling receivables	*5.5*	42,219	12,524	Loans measured at amortized cost
ASSETS		**1,575,282**	**1,794,075**	
Trade liabilities	*7.3*	(471,094)	(396,908)	Loans measured at amortized cost
Loans and borrowings	*7.1*	(1,749,631)	(1,426,041)	Loans measured at amortized cost
Factoring liabilities	*7.3*	(16,979)	(16,304)	Loans measured at amortized cost
Hedging derivatives with negative value	*7.2;7.3*	(43,087)	(41,713)	Valued in fair value through income statement
Derivative instruments with negative value	*7.2;7.3*	(1,681)	(1,956)	Hedging instruments
Cash pooling liabilities	*7.3*	(77,665)	(117,957)	Loans measured at amortized cost
LIABILITIES		**(2,360,137)**	**(2,000,879)**	

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Selected trade receivables in CIECH S.A. are subject to factoring. This is factoring with the assumption of insolvency risk whereby the factor assumes the risk in the amount specified in the insurance policy.

Revenues, costs, profit and loss recognised in the income statement by the category of financial instruments.

Items of revenues, costs, profits and losses recognized in the statement of profit or loss	01.01.-31.12.2018	01.01.-31.12.2017	Categories of financial instruments
Revenues/(costs) due to interests, including those calculated using the effective interest rate method	**(17,476)**	**(4,497)**	
	52,966	45,854	Financial assets valued at amortized cost
	(70,442)	(50,351)	*Financial liabilities valued at amortized cost*
Profits/(losses) due to exchange differences	**2,671**	**(12,155)**	
	2,671	(12,155)	*Financial liabilities valued at amortized cost*
Recognition of impairment losses	**(2,192)**	**(3,256)**	Financial liabilities valued at amortized cost
Reversal of write-offs	**724**	**4,026**	Financial liabilities valued at amortized cost
Income/expenses due to the use of derivative financial instruments	**236**	**89,441**	
	(9,086)	75,236	*Assets/financial liabilities valued in fair value through income statement*
	9,322	14,205	*Hedging instruments*
TOTAL	**(16,037)**	**73,559**	

8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING

Accounting policy

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. Derivatives such as options, forwards, swaps are held to hedge the fair value of assets or liabilities or expected future cash flows.

For the hedging instruments, the Entity may apply hedge accounting if, and only if, all the following conditions are met:

- ✓ the hedging relationship consists only of eligible hedging instruments and eligible hedged items.
- ✓ at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for entity the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).
- ✓ the hedging relationship meets all of the following hedge effectiveness requirements:
  - a) there is an economic relationship between the hedged item and the hedging instrument;
  - b) the effect of credit risk does not dominate the value changes that result from that economic relationship; and
  - c) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Cash flow hedge:

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss. Cash flow hedge shall be accounted for as follows:

- ✓ the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
b) the cumulative change in fair value (present value) of the hedged item (ie the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.

- ✓ the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (ie the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognised in other comprehensive income.
- ✓ any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)) is hedge ineffectiveness that shall be recognised in profit or loss.

The effective portion of the hedge is transferred to profit or loss as a reclassification adjustment in the period or periods when the hedged expected future cash flows affect profit or loss.

The table below presents a summary of specific groups of relationships existing in 2018, designated for hedge accounting:

				31.12.2018		31.12.2017	
Type of instrument	Secured position	Nominal value/Volume	Maturity	Value in financial assets	Value in financial liabilities	Value in financial assets	Value in financial liabilities
Derivative instruments - cash flow hedge							
Currency risk							
Currency Forwards EUR/PLN	Future cash flows due to the realization of sales revenues denominated or indexed to the EUR exchange rate	EUR 78,784 Thousand	2019	543	(218)	4 271	-
Currency Forwards USD/RON	Future cash flows due to the realization of sales revenues denominated or indexed to the USD exchange rate	USD 31,800 Thousand	2019	-	(848)	1 429	-
Interest rate risk							
Interest rate swap EURIBOR 6M fixed rate	Interest payments on a term loan contracted by CIECH S.A. with a nominal value of PLN 30,000 thousand EUR	EUR 25,521 Thousand	2022	-	(756)	210	(1,956)

	31.12.2018			31.12.2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Provision for the use of cash flow hedges at the beginning of the period	3,954	(707)	3,246	(6,178)	1,058	(5,120)
Effective part of profits / (losses) on hedging instruments:						
-currency risk	(13,702)	2,553	(11,149)	(8,888)	1,830	(7,059)
-interest rate risk	(988)	188	(800)	(466)	88	(377)
Reclassification to the statment of profit or loss:						
- currency risk (sales revenues)	7,367	(1,418)	5,950	16,834	(3,181)	13,654
-interest rate risk (interest costs)	1,978	(376)	1,602	2,651	(503)	2,148
Provision for the use of cash flow hedges at the end of the period	**(1,391)**	**240**	**(1,152)**	**3,954**	**(707)**	**3,246**

The aim of CIECH S.A. when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements and exchange rates differences from valuation of financial instruments on the statement of profit or loss by reflecting their hedging nature in the financial statements.

In the reporting period, there were no instances of identifying the inability to realise a future transaction in respect of which the cash flow hedge accounting was applied.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Company's long-term financial forecast. Additionally, majority of these transactions are concluded with regular customers of CIECH S.A., which supports the probability of their occurrence.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

CIECH S.A. actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the companies' market value.

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 75% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

In 2018, the Company concluded futures contracts to hedge currency risk and interest rate risk (forward, IRS and CIRS transactions).

Cash management

CIECH S.A. cooperates with bank service providers of high credit rating and with substantial experience in the cash management area. Allocation of financial resources is performed through the use of intra-group loans, dividends payout by subsidiaries, participation in a cash management system (cashpooling) and increase of share capital in the subsidiaries.

Quantitative and qualitative information on financial risks

CIECH S.A. manages financial risks based on, among others, the developed and adopted market risk hedging strategy. The aim of the financial risk management policy is to identify areas requiring risk analysis to determine methods to identify and measure it, to determine activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

In fulfilling its main goals, CIECH S.A. aims to avoid excessive market risk. This goal is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of the Company's debt. When assessing risk, the Company takes into account the risk portfolio effect resulting from the variety of conducted business activities. Effects of the risk are reflected in the financial statements.

Financial risk management covers processes of identifying, measuring and establishing the manner of responding to that risk, including processes related to currency exchange rates and interest rate fluctuations. CIECH S.A. monitors risk areas which are most important for its activities.

Interest rate risk

CIECH S.A. finances its activity mainly through term loans. The amount of the costs of interest-bearing debt held by the Company depends on the reference rate. This refers to term loans made available under a facilities agreement dated 9 January 2018 in the amount of PLN 1,212 million and EUR 30 million, a revolving credit facility made available under a facilities agreement dated 9 January 2015 in the amount of PLN 250 million (as at the end of 2018, the debt amounted to PLN 250), overdraft facilities (as at the end of 2018, the debt amounted to PLN 32,873 Thousand) and a part of lease and factoring contracts.

Therefore, the Company is exposed to risk of change in finance costs due to changing interest rates on existing debt. This may result in increased financial costs and, consequently, deterioration of the Company's financial performance. The risk is partially reduced by the assets owned by CIECH S.A. (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions.

In 2018, CIECH S.A. used the following interest rate hedging transactions:

- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015 and annexed on 9 january 2018. The transaction hedged indebtedness in the amount of EUR 30 million, depreciated in accordance with the IRS transaction schedule;
- currency and interest rate swap transactions to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015 and annexed on 9 january 2018. The transaction hedges indebtedness of initial nominal value of PLN 1,045 millionm depreciated in accordance with the CIRS transaction schedule.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

The table below presents the statement of financial position items (without derivative instruments) exposed to interest rate risk:

Total carrying amount	31.12.2018	31.12.2017
Fixed interest rate instruments	**354,132**	**(3,945)**
Financial assets	354,132	92,177
Financial liabilities	-	(96,122)
Floating interest rate instruments	**(950,956)**	**(46,006)**
Financial assets	876,340	1,401,870
Financial liabilities*	(1,827,296)	(1,447,876)

**EUR 30 milion secured by the IRS, PLN 1,045 thousand PLN secured by CIRS – IRS transaction separated as part of the CIRS decomposition*

The table below shows the effects of a change in the interest rate by 100 basis points in relation to the floating interest rate instruments presented in the statement of financial position.

	Statement of profit or loss		Equity*	
	increase by 100 bp	decrease by 100 bp	increase by 100 bp	decrease by 100 bp
31.12.2018				
Floating interest rate instruments	(9,510)	9,510	-	-
Interest rate swap transactions (IRS)	-	-	1,364	(1,410)
Cash flows sensitivity (net)	**(9,510)**	**9,510**	**1,364**	**(1,410)**
31.12.2017				
Floating interest rate instruments	(460)	460	-	-
Interest rate swap transactions (IRS)	-	-	10,412	(10,862)
Cash flows sensitivity (net)	**(460)**	**460**	**10,412**	**(10,862)**

** Do not include the impact of profit/loss on equity.*

Currency risk

Currency risk is an inevitable component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, CIECH S.A. is subject to currency exposure related to the significant lead of export over import. Sources of currency risk to which the Company was exposed in 2018 included: purchase of raw materials, product sales, loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the Company's financial results.

In 2018, CIECH S.A. used hedging contracts, such as forward options, to partially cover currency risk. CIECH S.A. tries to naturally hedge the foreign currency exposure, including matching of currency flows arising from sales and purchases as well as strategic debt denominated in EUR, in order to fit it to the expected exposure to currency risk in operations.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

The table below presents the estimated currency exposure of CIECH S.A. in EUR and USD as at 31 December 2018 and 2017 due to financial instruments:

Exposure to currency risk in EUR (figures denominated in EUR)	31.12.2018	31.12.2017	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	83,400	61,192	x	
Trade and other receivables	12,395	13,380	x	
Cash including bank deposits	2,941	13,600	x	
Liabilities				
Trade and other liabilities	(13,741)	(13,760)	x	
Term loan liabilities	(30,000)	(69,673)	x	
Hedging instruments: Forward	(78,784)	(15,600)		x
Forward not designated in headge accounting	(25,000)	-	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(209,764)	(246,665)	x	
Total exposure	**(258,553)**	**(257,526)**		

Exposure to currency risk in USD (figures denominated in USD)	31.12.2017	31.12.2016	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Trade and other receivables	15,000	12,624	x	
Cash including bank deposits	968	9,538	x	
Liabilities				
Trade and other liabilities	(4,653)	(3,048)	x	
Hedging instruments: Forward*	(31,800)	(5,600)		x
Total exposure	**(20,485)**	**13,514**		

** Measurement of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.*

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 31 December 2018.

Figures denominated in EUR*		Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to EUR exchange rate changes – 2017			
Currency balance sheet items	(2,885)	-	(2,885)
Hedging instruments: Forward	473	773	(300)
Analysis of sensitivity to EUR exchange rate changes – 2016			
Currency balance sheet items	(2,419)	(2,419)	-
Hedging instruments: Forward	(156)	-	(156)

***** *Increase of EUR/PLN exchange rate by 1 grosz*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Figures denominated in USD*		Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to USD exchange rate changes – 2017			
Currency balance sheet items	113	113	-
Hedging instruments: Forward	(318)	-	(318)
Analysis of sensitivity to USD exchange rate changes – 2016			
Currency balance sheet items	191	191	-
Hedging instruments: Forward	(56)	-	(56)

* *Increase of EUR/PLN exchange rate by 1 grosz*

Raw material price risk

A significant portion of CIECH S.A.'s activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature related to fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries and a decrease of demand generated by recipients. On the other hand, the falling prices are usually a symptom of a decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of CIECH S.A. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have a negative influence on the activity related to trading in chemical raw materials by the Company.

CIECH S.A. reduces price risk through concluding agreements with suppliers with appropriate price formula.

Credit risk

Credit risk means a threat of the counterparty not fulfilling the obligations stipulated in the agreement, exposing the lender to financial loss.

From the CIECH S.A.'s point of view, credit risk is linked to:

- trade receivables from customers,
- loans granted,
- cash and bank deposits,
- guarantees and sureties granted.

CIECH S.A. is exposed to credit risk connected with the credit rating of customers being parties to products and goods sales transactions. That risk is limited by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Company uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). Customers' creditworthiness is assessed and appropriate collateral is obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt. Credit risk assessment for customers is performed prior to concluding an agreement and periodically at subsequent deliveries of goods in accordance with the binding procedures. The risk of the receivables portfolio is assessed on a weekly basis. On selected markets, where more risky payment deadlines are applied, the Company makes use of services provided by companies specialising in insuring receivables. Credit risk connected with cash in bank and bank deposits is low as CIECH S.A. enters into transactions with high-rating banks with stable market position.

The table below presents the maximum exposure of financial assets to credit risk as at the end of reporting period.

	31.12.2018	31.12.2017
Cash and cash equivalents	54,988	375,393
Loans granted	1,133,265	1,106,130
Trade receivables	280,363	217,333
Factoring receivables	36,528	23,255
Cash pooling receivables	42,219	12,524
Assets due to valuation of derivatives	27,919	59,440
TOTAL	**1,575,282**	**1,794,075**

The fair value of financial assets exposed to credit risk is similar to their carrying amount. At the end of the presented periods, there were no loans granted to non-related entities.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

The table below presents trade receivables and factoring receivables by age from maturity date.

	31.12.2018		31.12.2017	
	Trade receivables and factoring receivables (gross value)	Impairment loss	Trade receivables and factoring receivables (gross value)	Impairment loss
Not overdue	232,475	(2,740)	206,555	(1,635)
Up to 1 month	61,160	-	31,753	-
1-3 months	13,995	-	738	-
3-6 months	5,532	-	2,660	-
6-12 months	6,991	(600)	565	(42)
Over 1 year	11,868	(11,790)	11,487	(11,487)
TOTAL	**332,021**	**(15,130)**	**253,758**	**(13,164)**

According to the Management Board of CIECH S.A., the Company's assets that are not overdue and not covered by an impairment allowance are of high credit quality. The Company has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance.

Information on guarantees and sureties granted is provided in note 9.2 to these statements.

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Poland	200,475	115,675	779,134	850,906
European Union	40,207	59,800	354,131	255,224
Other European countries	17,012	16,350	-	-
North America	-	54	-	-
South America	-	117	-	-
Africa	9,745	3,779	-	-
Asia	49,452	44,819	-	-
TOTAL	**316,891**	**240,594**	**1,133,265**	**1,106,130**

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Soda segment	194,229	183,968	-	-
Organic segment	99,423	43,778	-	-
Transport segment	17,228	4,589	-	-
Silicates and Glass segment	4,694	5,106	-	-
Other activities	1,317	3,153	1,133,265	1,106,130
TOTAL	**316,891**	**240,594**	**1,133,265**	**1,106,130**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

Impairment of financial assets

Changes in the gross carrying amounts of trade receivables and loans with reconciliation of write-downs as at 31 December 2018 and as at 31 December 2017 to opening balances are presented in the table below:

	Trade receivables			Loans		
	Basket 1	Basket 3	TOTAL	Basket 1	Basket 3	TOTAL
	ECL in life - no loss of value	ECL in life - with loss of value		12-month ECL	ECL in life	
Gross value on 01.12.2018	**215,455**	**15,048**	**230,503**	**1,103,113**	**52,362**	**1,155,475**
Created	2,304,976	-	2,304,976	187,271	-	187,271
Interest accrued	6,955	-	6,955	42,744	(2,834)	39,910
Written off	-	-	-	-	(46,200)	(46,200)
Repaid	(2,238,564)	-	(2,238,564)	(184,938)	-	(184,938)
Exchange differences	(8,325)	-	(8,325)	2,006	-	2,006
Gross value on 31.12.2018	**280,497**	**15,048**	**295,545**	**1,150,196**	**3,328**	**1,153,524**
Impairment 31.12.2017						
According to IAS 39	**-**	**13,164**	**13,164**	**-**	**49,344**	**49,344**
Adjustment of the initial application of IFRS 9	**588**	**-**	**588**	**16,282**	**-**	**16,282**
Opening balance of revaluation write-offs on 01/01/2018 (calculated in accordance with IFRS 9)	**588**	**13,164**	**13,752**	**16,282**	**49,344**	**65,626**
write-downs included in the financial result	82	1,960	2,042	16,931	3,018	19,949
Reversal of write-offs	(588)	(76)	(664)	(16,282)	(49,034)	(65,316)
Net-value on 31.12.2018	**280,415**	**-**	**280,415**	**1,133,265**	**-**	**1,133,265**

The net carrying amount of trade receivables and loans reflects the maximum exposure to credit risk.

Calculation of impairment losses on loans granted

As at 1 January 2018, in accordance with IAS 39, the Company recognised impairment allowances for loans in the amount of PLN 49,344 thousand, based on a case-by-case analysis of particular loans and the probability of their repayment. As at the date of application of IFRS 9, the Company, in accordance with the three-stage expected credit loss model, calculated the expected credit loss on the basis of the probability of default (calculated based on the assessment of credit risk, i.e. the Company's rating). The impairment allowance of PLN 16,282 thousand was charged to retained earnings as at 1 January 2018. As at the effective date of IFRS 9, all loans were classified by the Company in Stage 1 (loans for which no significant deterioration in credit quality was observed and expected credit losses are estimated in the period of 12 months after the reporting date). As at 31 December 2018, loans were reclassified to Stage 2 or Stage 3.

The following tables present the reconciliation of impairment allowances for financial assets.

	IFRS 9	MSSF 9	IAS 39
	31.12.2018	01.01.2018	31.12.2017
Gross carrying amount	1,153,524	1,155,474	1,155,474
Write-down	(20,259)	(65,626)	(49,344)
TOTAL	**1,133,265**	**1,089,848**	**1,106,130**

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The following table presents an analysis of the credit risk stages of loans measured at amortised cost.

	31.12.2018			01.01.2018		
Rating	Bakset 1	Basket 3	TOTAL	Basket 1	Basket 3	TOTAL
	12-month ECL	ECL in life		12-month ECL	ECL in life	
Rating CIECH SA (-BB S&P)	1,150,196	**3,328**	**1,153,524**	1,106,100	49,344	**1,155,474**
Gross value	**1,150,196**	**3,328**	**1,153,524**	**1,106,130**	**49,344**	**1,155,474**
Impariment loss	(16,931)	(3,328)	**(20,259)**	(16,282)	(49,344)	**(65,626)**
Net value	**1,133,265**	**-**	**1,133,265**	**1,089,848**	**-**	**1,089,848**

Calculation of impairment allowances for trade receivables

The following tables present the reconciliation of impairment allowances for financial assets in accordance with IFRS 9.

Default rates and calculation of impairment allowances as at 1 January 2018 are presented in the following table.

In addition, as at 1 January 2018 the Company carried out an analysis of receivables with a total carrying amount of PLN 250,503 thousand which, in accordance with IAS 39, were identified on a case by case basis as impaired (receivables past due by more than 180 days). The analysis confirmed previous estimates that these receivables are fully irrecoverable. Therefore, no adjustments were made to these items as at 1 January 2018. In 2018, the Company recognised additional impairment allowances for receivables overdue by more than 180 days in the amount of PLN 8,400 thousand.

01.01.2018	TOTAL	Current 0-30 days	30-60 days	>90 days
Receivables	**230,503**	**215,053**	**738**	**14,712**
Liabilities failure ratio	-	0.03%	0.03%	0.03%
Expected credit losses	**588**	64	-	524
Total expected losses	**13,752**	**1,699**	**-**	**12,053**
from group analysis	**588**	64	-	524
from individual analysis	**13,164**	1,635	-	11,529

31.12.2018	TOTAL	Current 0-30 days	30-60 days	>90 day
Gross receivables	**295,545**	**257,161**	**13,995**	**24,389**
Liabilities failure ratio	-	0.03%	0.03%	0.03%
Expected credit losses	**82**	76	4	2
Total expected losses	**15,130**	**2,734**	**4**	**12,392**
from group analysis	**82**	76	4	2
from individual analysis	**15,048**	2,658		12,390

Liquidity risk

CIECH S.A. is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to the term loan, working capital facility and lease agreements) in relation to operating results, the limited ability to obtain new financing due to the existing high level of indebtedness and the risk of losing the existing long-term financing as a result of violating covenants stipulated in the bond issue terms and loan agreements.

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of CIECH S.A.,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities from the CIECH Group's companies,
- current monitoring of the settlement of liabilities under the loan agreements conditions.

The CIECH S.A.'s debt financing is ensured by a term loan. In addition, a revolving credit facility in the amount of PLN 250 million has been made available to the Company, constituting an additional source of current liquidity and working capital financing (as at 31 December 2018, the facility was drawn down in the amount of PLN 250 million).

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The table below presents financial liabilities at face value grouped by maturity.

31.12.2018	Carrying amount	Contractual cash flows	Below	up to 12 months	1–2 years	3–5 years
Trade liabilities	(471,094)	(471,094)	(471,094)	-	-	-
Loans and borrowings	(1,749,631)	(1,886,343)	(268,053)	(183,074)	(35,121)	(1,400,095)
Factoring liabilities	(16,979)	(16,979)	(16,979)	-	-	-
Cash pooling liabilities	(77,665)	(77,665)	(77,665)	-	-	-
Derivative instruments with negative value	(43 087)	(44 371)	-	(5 137)	(39 234)	-
Hedging derivatives with negative value	(1 681)	(1 422)	(789)	(433)	(200)	-
Total financial liabilities	**(2 315 369)**	**(2 452 081)**	**(834 580)**	**(183 507)**	**(35 321)**	**(1 400 095)**

31.12.2017	Carrying amount	Contractual cash flows	Below	up to 12 months	1–2 years	3–5 years
Trade liabilities	(396,908)	(396,908)	(396,908)	-	-	-
Loans and borrowings	(1,426,041)	(1,510,252)	(15,713)	(312,039)	(226,365)	(956,135)
Factoring liabilities	(16,304)	(16,304)	(16,304)	-	-	-
Cash pooling liabilities	(117,957)	(117,957)	(117,957)	-	-	-
Derivative instruments with negative value	(41,713)	(44,307)	-	(819)	(43,488)	-
Hedging derivatives with negative value	(1,956)	(1,592)	(393)	(385)	(814)	-
Total financial liabilities	**(2,000,879)**	**(2,087,320)**	**(547,275)**	**(313,243)**	**(270,667)**	**(956,135)**

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the statement of profit or loss has been presented in note 8.1.

8.4. DETERMINATION OF FAIR VALUE

The following list presents the fair value of financial instruments.

	31.12.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	54,988	54,988	375,393	375,393
Loans granted	1,133,265	1,133,265	1,106,130	1,106,130
Trade receivables	280,363	280,363	217,333	217,333
Assets due to valuation of derivatives	27,521	27,521	53,530	53,530
Derivative instruments recognized in financial assets designated as hedging instruments	398	398	5,910	5,910
Cash pooling receivables	42,219	42,219	12,524	12,524
Factoring receivables	36,528	36,528	23,255	23,255
ASSETS	**1,575,282**	**1,575,282**	**1,794,075**	**1,794,075**
Loans and borrowings	(1,749,631)	(1,756,842)	(1,426,041)	(1,431,752)
Trade liabilities	(471,094)	(471,094)	(396,908)	(396,908)
Liabilities due to valuation of derivatives	(43,087)	(43,087)	(41,713)	(41,713)
Derivative instruments recognized in financial liabilities designated as hedging instruments	(1,681)	(1,681)	(1,956)	(1,956)
Cash pooling liabilities	(77,665)	(77,665)	(117,957)	(117,957)
Factoring liabilities	(16,979)	(16,979)	(16,304)	(16,304)
LIABILITIES	**(2,360,137)**	**(2,367,348)**	**(2,000,879)**	**(2,006,590)**

The fair value of financial assets and liabilities corresponds with the amounts for which these instruments may be exchanged in a market transaction between well informed parties. The following assumptions were made in establishing the fair value:

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

- cash, trade receivables and liabilities are not measured at fair value – it is assumed that the carrying amount is the closest to fair value due to the short maturities of these instruments,
- fair value of financial assets and liabilities recognised in the statement of financial position at amortised cost for which no active market exists was established as the present value of future cash flows discounted at market interest rate.

Measurement at fair value is grouped according to three-level hierarchy:

- Level 1 – fair value based on market listing stock exchange prices (unadjusted) offered for identical assets or liabilities on active markets – did not occur.
- Level 2 – CIECH S.A. measures derivatives at fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates etc.
- Level 3 – fair value estimated on the basis of various valuation techniques which are not based on observable market inputs - did not occur.

Assets and liabilities measured at fair value

	31.12.2018 Level 2	31.12.2017 Level 2
ASSETS	**27 919**	**59,440**
Hedging instruments	398	5,910
Derivatives at fair value through profit or loss	27 521	53,530
LIABILITIES	**(44 768)**	(43,669)
Hedging instruments	(1 681)	(1,956)
Derivatives at fair value through profit or loss	(43 087)	(41,713)
TOTAL	**(16 849)**	**15,771**

As at 31 June 2018, CIECH S.A. held the following types of financial instruments measured at fair value: interest rate swap contracts, currency forward contracts EUR/PLN, forward USD/RON and CIRS (currency and interest rate swap) contract EUR/PLN. The CIRS contract is not designated to hedge accounting.

The fair value of the interest rate swap contract is determined as a difference in the discounted interest rate cash flow (cash flow based on a floating rate, the so-called floating leg, and a fixed rate, the so-called fixed leg). The input data for the method is the market data for interest rates provided by Reuters. The fair value of the CIRS contract is determined as a difference in discounted interest and capital cash flows. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters. The fair value of the currency forward is determined as a difference between the transaction rate and the forward rate at the valuation date multiplied by the nominal value of the contract in the foreign currency. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.

Fair value of financial instruments	Longterm financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
31.12.2018					
IRS EUR	-	-	(282)	(474)	(756)
CIRS	11,859	15,517	(37,899)	(5,047)	(15,570)
Forward EUR/PLN	-	543	-	(218)	325
Forward USD /RON	-	-	-	(848)	(848)
TOTAL	**11,859**	**16,060**	**(38,181)**	**(6,587)**	**(16,849)**
31.12.2017					
IRS EUR	210	-	(620)	(1,336)	**(1,746)**
CIRS	34,876	18,654	(40,908)	(805)	**11,817**
Forward EUR/PLN	-	4,271	-	-	**4,271**
Forward USD /RON	-	1,429	-	-	**1,429**
TOTAL	**35,086**	**24,354**	**(41,528)**	**(2,141)**	**15,771**

The above financial instruments were classified at level 2 of the fair value hierarchy. In 2018, there were no transfers within the fair value hierarchy of instruments measured at fair value.

Financial instruments not measured at fair value

CIECH S.A. has taken out term and revolving credit facilities whose book value, as at 31 December 2018, was PLN 1,617,187 thousand, and whose fair value amounted to PLN 1,624,398 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

In the case of the remaining financial instruments held by CIECH S.A. (classified mainly as cash, loans and receivables, financial liabilities measured at amortised cost other than loans and financial liabilities excluded from the scope of IFRS 9), the fair value is close to the book value.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

9 OTHER NOTES

9.1. NOTES TO THE STATEMENT OF CASH FLOWS

The tables below present the reasons for the differences between the changes of particular items of the statement of financial position and changes resulting from the statement of cash flows:

	31.12.2018	31.12.2017
Change of liabilities presented in statement of financial position	**353,747**	**(199,337)**
Change of financial liabilities	(283,298)	150,864
Change of income tax liabilities	3,891	1,552
Change of liabilities applying to non-current assets	7,067	(12,457)
Change of liabilities - compensation	(32,655)	23,884
Valuation of derivatives	(253)	83,268
Change of liabilities in statement of cash flow	**48,499**	**47,774**

	31.12.2018	31.12.2017
Receivables change presented in statement of financial position	**(119,908)**	**113,946**
Zmiana stanu należności z tytułu podatku dochodowego	-	(807)
Reclasification of receivables from cashpool	29,695	11,585
Receivables change due to increase in the capital of a subsidiary company	2,330	-
Receivables change - compensation due to purchase of asset	(619)	(4,598)
Receivables change - conversion to a loan	-	(64,849)
Receivables change - redeemed loans with interest	49,034	-
Receivables change - compensation of interest on the loan	26,327	-
Receivables change presented in statement of cash flow	**(13,141)**	**55,277**

	31.12.2018	31.12.2017
Change in reserves and employee benefits	**67,370**	**(249)**
Change in reserves from income tax	(43,700)	-
Receivables change presented in statement of cash flow	**23,670**	**(249)**

9.2. INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES AND OTHER MATTERS

Accounting policy

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Company. Contingent assets are not recognised in the statement of financial position since this may result in the recognition of income that may never be realised.

A contingent liability is a possible future obligation, whose existence will be confirmed by the occurrence or non occurrence of uncertain future events not wholly within the Company's control. These are also liabilities that arose from past events but were not recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the statement of financial position.

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Significant disputed liabilities of CIECH S.A.

As at 31 December 2018, CIECH S.A. did not have any significant disputed liabilities pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in section “Checks in the field of tax settlements” hereof.

Significant disputed receivables of the CIECH Group

As at 31 December 2018, CIECH S.A. did not hold any significant disputed receivables pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies.

Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2018	31.12.2017
Contingent assets	**18,864**	**18,864**
Other contingent receivables*	18,864	18,864
Other contingent liabilities	**586,262**	**511,416**
Guarantees and sureties granted**	586,262	511,416

**Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF “FOSFORY” Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF “FOSFORY” Sp. z o.o. to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.*

*** Including:*

- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 365,630 thousand,*
- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand – contingent liability in the amount of PLN 32,250 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 50,000 thousand – contingent liability in the amount of PLN 12,500 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 10,000 thousand – contingent liability in the amount of PLN 10,750 thousand.*

As at 31 December 2018, contingent liabilities amounted to PLN 586,262 thousand and decreased as compared to 31 December 2017 by PLN 74,846 thousand. This change resulted primarily from the value of guarantees to loans (described above) and the change in the value of gurantees granted for liabilities of subsidiaries:

- issue of a new guarantee for the liabilities of a subsidiary, Ciech Soda Deutschland GmBH & CO. KG, in the amount of EUR 26,368 thousand,
- issue of a new guarantee for the liabilities of a subsidiary, Ciech Cargo Sp. z o.o., in the amount of PLN 2,850 thousand,
- decrease in a contingent liability under a guarantee in the amount of PLN 67,035 thousand following the expiry of a surety for liabilities of a subsidiary, Ciech Vitrosilicon S.A.

Sureties and guarantees granted as at 31 December 2018

Beneficiary’s name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
CIECH S.A.				
Landesamt fuer Geologie und Bergwesen Sachsen-Anhalt	EUR 7,101 thousand	30,534 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Soda Deutschland (subsidiary)
Santander Faktoring Sp. z o.o.	PLN 18,000 thousand	18,000 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Trading S.A. (subsidiary)

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Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
Spolana a.s.	EUR 1,500 thousand	6,450 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. Liabilities incurred and outstanding by 31.12.2018	CIECH Trading S.A. (subsidiary)
Siemens Industrial Turbo- machinery s.r.o	EUR 1,753 thousand	7,538 thousand	Commission of 0.4% p.a. of the guaranteed liability, lease instalments outstanding by 30.04.2019	CIECH Energy Deutschland GmbH (subsidiary)
DB Cargo Polska S.A.	PLN 2,850 thousand	2,850 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral for payment – court settlement relating to a damage to a leased locomotive; 30.06.2019	CIECH Cargo Sp. z o.o. (subsidiary)
Evatherm AG	EUR 23,200 thousand	99,760 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; until the liabilities arising from the agreement between Evatherm AG and CIECH Soda Deutschland GmbH have been settled	CIECH Soda Deutschland (subsidiary)
Total amount of guarantees and sureties granted				**PLN 165,132 thousand**

Selected subsidiaries in Poland, Germany and Romania				
Banks: Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Santander Bank Polska S.A., Bank PKO BP S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., ICBC (Europe) S.A. Branch in Poland, mBank S.A., BGŻ BNP Paribas S.A.	PLN 1,828,150 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and for a revolving credit facility in the amount of PLN 250,000 thousand) EUR 37,500 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand) PLN 62,500 thousand (guarantee granted up to the amount of 125% of liability related to overdraft facility granted by Bank Millennium S.A. in the amount of PLN 50,000 thousand and EUR 12,500 thousand (guarantee granted up to the amount of 125% of liability related to overdraft facility in the amount of EUR 10,000 thousand)	2,105,650 thousand	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit; Period for which the surety was granted – 31 December 2023 – term loan and revolving credit facility and 31 December 2021 – overdraft facilities in PLN and EUR	CIECH S.A. (parent company)
Total amount of guarantees and sureties granted				**PLN 2,105,650 thousand**

Letters of support

As at 31 September 2018, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to RWE Gasspeicher GmbH ("RWE") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 43.9 million from RWE by 31 December 2018. In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against RWE resulting from the above-mentioned agreement.

Checks in the field of tax settlements

In 2018, the following audits and proceedings were carried out at CIECH S.A.:

1. a customs and fiscal audit followed by tax proceedings concerning Corporate Income Tax settlements for 2012 (CIT 2012),
2. tax proceedings concerning Corporate Income Tax settlements for 2013 (CIT 2013).

CIT audit for 2012 at CIECH S.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. CIECH SA received the outcome of the audit on 4 July 2018. The tax authority challenged the transaction concerning the capital increase in a subsidiary. In the opinion of the authority, making a cash contribution by means of a contractual set-off of mutual receivables gives rise to income on the part of the Company for which, according to the auditors, the Company cannot recognise a cost. The company's management board and its tax advisors do not agree with the findings made by the auditors

On 27 December 2018, the company received a decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority. The Company contested the position and filed an appeal. At present, proceedings before the Second Instance are pending.

If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 43.7 million (the tax base challenged by the authority is PLN 230 million) together with interest due, amounting to PLN 23.5 million as at the balance sheet date.

Under the prudence principle, CIECH S.A. recognised a provision for potential tax liabilities and interest (PLN 67.2 million in total).

CIT audit for 2013 at CIECH S.A. was initiated by the Tax Audit Office in Warsaw on 30 November 2016. The tax audit report was issued on 16 May 2017. The authority claims that the Company has overestimated the tax deductible cost of interest on cash obtained as a result of the issue of bonds and allocated to the supplementary capital of CIECH Soda Deutschland GmbH & Co. KG. Moreover, the authority is of the opinion that the fee for the CIECH S.A. trademark should not be recognised by CIECH S.A. as a tax deductible cost.

The tax base challenged by the authority is PLN 9.4 million (after taking into account the tax loss incurred in the audited year), which translates into a tax of PLN 1.8 million.

The company and its advisors did not agree with the findings of the auditors and as a result of the tax proceedings, the Decision of the First Instance was issued, against which the company filed an appeal in 2017. On 14 March 2018 CIECH S.A. received the decision of the Second Instance in which the auditors upheld their findings contained in the Decision of the First Instance.

The company appealed to the Provincial Administrative Court against this decision. Despite this, the company decided to pay tax in the amount of PLN 1.8 million and interest (PLN 0.3 million) on 10 April 2018. The hearing before the Provincial Administrative Court in Warsaw was scheduled for 16 May 2019.

Apart from the above audits, in February 2018 CIECH S.A. received a written statement of reasons for the judgment issued by the Regional Administrative Court in 2017, in which the Provincial Administrative Court agreed in full with the position of the Company. The case concerned income tax for 2010. The auditors challenged the costs incurred, which translated into a tax liability of PLN 3 million. The Head of the Tax Administration Chamber did not appeal to the Supreme Administrative Court and thus the verdict became legally binding.

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9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

Detailed information about transactions between CIECH S.A. and other related entities (i.e. companies controlled by the parent company at the highest level in relation to CIECH S.A. — Kulczyk Investments S.A.) as well as subsidiaries and associates of CIECH S.A. is presented below:

CIECH SA TRANSACTIONS WITH RELETED ENTITIES	Subsidiary	affiliates	Other related	TOTAL
01.01.-31.12.2018				
Sales revenues	748,110	49,797	-	797,907
Financial income including:	94,380	273	-	94,653
Dywidendy	1,298	273	-	1,571
Purchase of products, goods, materials and services including:	1,463,891	-	4,090	1,467,981
*KI One SA**	-	-	425	425
Financial expenses	35,586	-	-	35,586
31.12.2018				
Receivables	188,829	6,019	799	195,647
Loans granted	1,133,265	-	-	1,133,265
Trade and other liabilities including:	432,669	494	1,071	434,234
*KI One SA**	-	-	1,071	1,071
Recived loans	132,444	-	-	132,444
01.01.-31.12.2017				
Sales revenues	742,921	44,445	-	787,366
Financial income including:	261,724	288	-	262,012
Dywidendy	127,587	288	-	127,875
Purchase of products, goods, materials and services including:	1,351,421	13,002	3,807	1,368,230
Kulczyk Holding S.A.	-	-	758	758
Financial expenses	16,186	-	-	16,186
31.12.2017				
Receivables	62,851	2,909	939	66,699
Loans granted	1,145,901	-	-	1,145,901
Trade and other liabilities	410,247	1,593	-	411,840
Recived loans	96,122	-	-	96,122

**In 2017, the Company operated under the name Kulczyk Holding S.A.*

Terms of transactions with related entities

Material sales to and purchases from related entities were, to the best of the Company's knowledge and belief, carried out on terms reflecting arm's length terms.Overdue liabilities and receivables are not secured and are settled in cash or by set-off.

No material non-standard or non-routine transactions were concluded with related entities in 2018 except for the ones presented in section 9.3.3.

In the presented period, the key management personnel of CIECH S.A. did not conclude any material transactions with related parties og CIECH GROUP.

9.3.2. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

To the best of the Company's judgement, there were no transactions with related entities in CIECH S.A. on other than market conditions in 2018.

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9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

Information on significant transactions with related entities is presented in note 6.4 of these financial statements.

9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

Key managerial personnel comprises persons who are authorised to and are responsible for direct and indirect planning, managing and controlling the activities of CIECH S.A.

Remuneration of the Management Board of CIECH S.A.

The following table presents the amount of remuneration and additional benefits paid or payable to particular Members of the Management Board in 2018 and in the comparable period. In the years 2017-2018, members of the Management Board of CIECH S.A. did not receive any remuneration for holding a position in the Supervisory Boards or any other functions performed in the subsidiaries of the CIECH Group.

	2018	2017
Dawid Jakubowicz	**450**	**-**
Artur Osuchowski	**3,033**	**2,923**
Mirosław Skowron	**300**	**-**
Maciej Tybura	4,276	4,119
Artur Król	3,034	2,921
Krzysztof Szlaga	1,196	-
Dariusz Krawczyk	81	969
TOTAL	**12,370**	**10,932**

Members of the Management Board are employed based on employment contracts. Remuneration of the Management Board Members are set out in individual employment contracts. Members of the Management Board are also entitled to:

- discretionary bonus in the amount determined by the Supervisory Board of CIECH S.A.;
- annual bonus determined in individual employment contracts.

Remuneration of the Supervisory Board of CIECH S.A.

	Salary received from CIECH S.A. w 2018	Salary received from CIECH S.A. w 2017
Sebastian Kulczyk	**-***	**-***
Piotr Augustyniak	**411**	**158**
Dominik Libicki	**82**	**117**
Tomasz Mikołajczak	**200**	**144**
Mariusz Nowak	**332**	**144**
Artur Olech	**332**	**144**
Dawid Jakubowicz	**37**	**-**
TOTAL	**1,394**	**707**

**From 1 April 2016, Chairman of the Supervisory Board, Mr. Sebastian Kulczyk does not receive any remuneration due to the waiver of the claim for remuneration for the position of the Chairman of the Supervisory Board.*

In accordance with a Resolution of the Extraordinary General Shareholders' Meeting, as of 1 November 2017 Members of the Supervisory Board are entitled to a monthly gross remuneration computed as a percentage of the calculation base. The calculation base is the average monthly remuneration in the sector of enterprises with profit distributions for the month preceding the calculation, announced by the President of the Central Statistical Office. This remuneration is paid in the following amount:

- to the Chairman of the Supervisory Board – 400% of the calculation base,
- to the Deputy Chairman – 350% of the calculation base,
- to a Board Member – 300% of the calculation base.

The Chairman of the Audit Committee is entitled to an additional gross monthly remuneration amounting to 150% of the remuneration payable to a Member of the Supervisory Board. Members of the Audit Committee are entitled to an additional gross monthly remuneration amounting to 100% of the remuneration payable to a Member of the Supervisory Board.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 (in PLN thousand)

9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS OF CIECH S.A.

The entity authorised to audit financial statements for the period from 1 January 2018 to 31 December 2018 was PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) with its registered office in Warsaw. On 25 June 2015, CIECH S.A. signed an agreement with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. on the review of semi-annual and audit of annual financial statements for the years 2015, 2016 and 2017. On 16 April 2018, the Supervisory Board of CIECH S.A. resolved to extend the agreement with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. on the review of semi-annual and audit of annual financial statements for the years 2018 and 2019. The value of agreements concluded with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. and members of the PricewaterhouseCoopers network is presented below:

	31.12.2018*	31.12.2017*
Audit of the annual financial statements	335	102
Review of the semi-annual report	93	83
Other services	10	204
Other certifying services	1	1
Tax advisory services	-	156**
TOTAL	**439**	**546**

** The remuneration includes additional costs, such as travel, accommodation and nourishment costs.*

***The amount concerns the verification of the Group's transfer pricing documentation for 2011-2015. The agreement was signed before the entry into force of restrictions concerning the assignment of additional services to the auditor and was completed by the end of 2017.*

9.5. EVENTS AFTER THE BALANCE SHEET DATE

On 28 January 2019, the Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Marek Kośnik to the Supervisory Board.

On 19 March 2019, the Management Board of the CIECH S.A. adopted a resolution to initiate a detailed review of the following options:

- changes to the corporate and organisational structure of the CIECH Group, with particular emphasis on the target model in the form of a holding company with a division of competences between individual business areas and the headquarters;
- changes to the asset structure of the CIECH Group.

This review is aimed at achieving the key objective under the Strategy, i.e. creating an effective and fully diversified chemical holding company that generates positive value for shareholders in the long term. This goal is also to be achieved by building value through changes in the asset portfolio and focusing on areas of key importance for the CIECH Group's operations.
As part of the review, CIECH S.A. will carry out a detailed analysis of the corporate and organisational model of the CIECH Group, and possible measures aimed at its optimisation in order to adjust the CIECH Group's structure to the challenges arising from the Strategy. Measures considered may include, among others, transfer of individual assets within the Company's group, as well as acquisition and disinvestment of selected assets. The analyses conducted by CIECH S.A. will be combined with the research of the mergers and acquisitions market in various areas.
Pursuant to the decision of the Management Board of CIECH S.A., the review of the options of changes in the asset structure will primarily concern the following companies: CIECH Pianki Sp. z o.o. and CIECH Trading S.A.
The Management Board of CIECH S.A. would like to stipulate that no decision has been made in relation to the selection of any particular option of specific changes to the corporate and organisational structure of the CIECH Group, or the structure of its assets. Thus, it is not certain whether or not, and if so – when, such decisions will be taken in the future.

REPRESENTATION OF THE MANAGEMENT BOARD

These financial statements of CIECH S.A. for the financial year ended 31 December 2018 were approved by the Company's Management Board on 26 March 2019.

Warsaw, 26 March 2019

(signed on the polish original)

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Dawid Jakubowicz — President of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Artur Osuchowski — Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Mirosław Skowron — Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Katarzyna Rybacka — Chief Accountant of CIECH Spółka Akcyjna