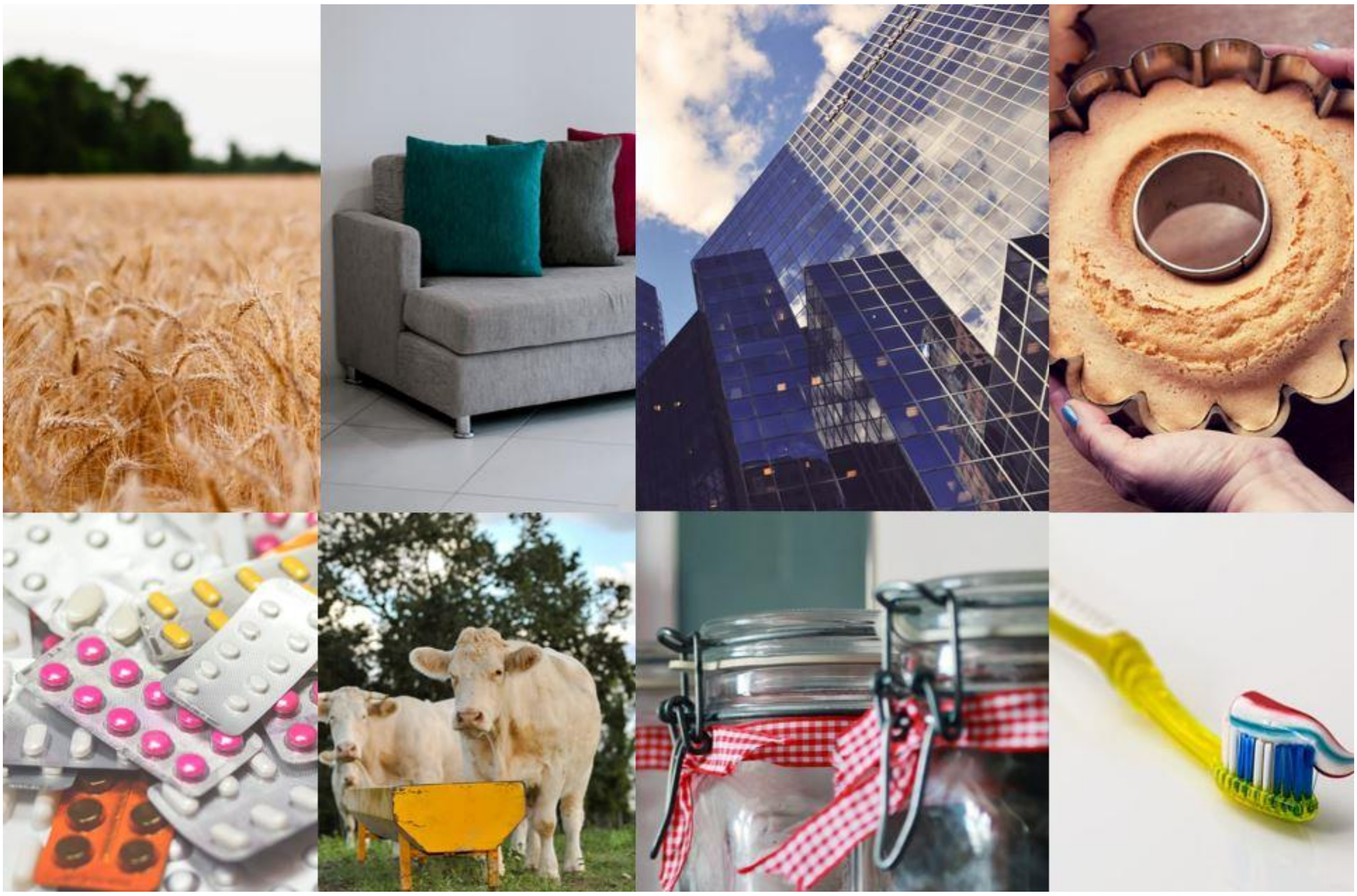
CONSOLIDATED FINANCIAL STATEMENTS

of the CIECH Group for 2018



The CIECH Group – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	12 months ended 31.12.2018	12 months ended 31.12.2017	12 months ended 31.12.2018	12 months ended 31.12.2017
Sales revenues	3,672,658	3,579,393	860,732	843,262
Operating profit/(loss)	379,200	588,808	88,870	138,716
Profit/(loss) before tax	311,138	515,745	72,919	121,503
Net profit / (loss) for the year	183,491	393,975	43,004	92,815
Net profit/(loss) attributable to shareholders of the parent company	183,032	393,413	42,896	92,683
Net profit/(loss) attributed to non-controlling interest	459	562	108	132
Other comprehensive income net of tax	864	27,178	202	6,403
Total comprehensive income	184,355	421,153	43,206	99,218
Cash flows from operating activities	453,938	628,832	106,386	148,145
Cash flows from investment activities	(626,669)	(389,137)	(146,868)	(91,676)
Cash flows from financial activities	(125,101)	(165,773)	(29,319)	(39,054)
Total net cash flows	(297,832)	73,922	(69,801)	17,415
Earnings (loss) per ordinary share (in PLN/EUR)	3.47	7.47	0.81	1.76
	as at 31.12.2018	as at 31.12.2017	as at 31.12.2018	as at 31.12.2017
Total assets	4,831,303	4,643,511	1,123,558	1,113,311
Total Non-current liabilities	1,627,589	1,369,282	378,509	328,294
Total Current liabilities	1,233,599	1,089,584	286,883	261,235
Total equity	1,970,115	2,184,645	458,166	523,782
Equity attributable to shareholders of the parent	1,969,827	2,187,596	458,099	524,490
Non-controlling interest	288	(2,951)	67	(708)
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 consolidated 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 consolidated statement of profit or loss, consolidated statement of other comprehensive income and consolidated 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
EUR 1 = PLN 4.3000	EUR 1 = PLN 4.1709	EUR 1 = PLN 4.2669	EUR 1 = PLN 4.2447

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	Note	01.01.-31.12.2018	01.01.-31.12.2017
CONTINUING OPERATIONS			
Sales revenues	*3.1*	**3,672,658**	**3,579,393**
Cost of sales	*3.2*	(2,909,242)	(2,662,729)
Gross profit/(loss) on sales		**763,416**	**916,664**
Other operating income	*3.4*	89,040	116,560
Selling costs	*3.2*	(271,734)	(263,481)
General and administrative expenses	*3.2*	(144,997)	(141,402)
Other operating expenses	*3.4*	(56,525)	(39,533)
Operating profit/(loss)		**379,200**	**588,808**
Financial income	*3.5*	19,159	13,499
Financial expenses	*3.5*	(87,737)	(86,787)
Net financial income/(expenses)		**(68,578)**	**(73,288)**
Share of profit / (loss) of equity-accounted investees	*5.8*	516	225
Profit/(loss) before tax		**311,138**	**515,745**
Income tax	*4.1*	(127,647)	(121,770)
Net profit/(loss) on continuing operations		**183,491**	**393,975**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	*5.13*	-	-
Net profit / (loss) for the year		**183,491**	**393,975**
including:			
Net profit/(loss) attributable to shareholders of the parent company		183,032	393,413
Net profit/(loss) attributed to non-controlling interest	*6.5*	459	562
Earnings per share (in PLN):			
Basic	*6.6*	3.47	7.47
Diluted	*6.6*	3.47	7.47

The consolidated statement of profit or loss of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	Note	01.01.-31.12.2018	01.01.-31.12.2017
Net profit/(loss) on continuing operations		**183,491**	**393,975**
Net profit/(loss) on discontinued operations		-	-
Net profit / (loss) for the year		**183,491**	**393,975**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	*3.6*	**(3,063)**	**45,106**
Currency translation differences (foreign companies)		8,808	(24,121)
Costs of hedging reserve		615	-
Cash flow hedge reserve		(12,489)	69,226
Other components of other comprehensive income		3	1
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	*3.6*	**(235)**	**(834)**
Actuarial gains		(235)	(834)
Income tax attributable to other comprehensive income		**4,162**	**(17,094)**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	*4.1.*	4,119	(17,250)
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	*4.1.*	43	156
Other comprehensive income net of tax		**864**	**27,178**
TOTAL COMPREHENSIVE INCOME		**184,355**	**421,153**
Comprehensive income including attributable to:		**184,355**	**421,153**
Shareholders of the parent company		183,761	420,769
Non-controlling interest		594	384

The consolidated statement of other comprehensive income of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	Note	31.12.2018	31.12.2017
ASSETS			
Property, plant and equipment	*5.1*	2,857,199	2,712,252
Right of perpetual usufruct	*5.2*	29,646	30,069
Intangible assets, including:	*5.3*	458,158	169,758
- goodwill	*5.4*	*140,713*	*61,373*
Investment property	*5.5*	37,766	44,268
Non-current receivables	*5.6*	64,603	81,678
Investments in associates and jointly-controlled entities measured under the equity method	*5.8*	5,556	5,095
Long-term financial assets	*5.7*	28,774	54,432
Deferred income tax assets	*4.3*	77,043	107,411
Total non-current assets		**3,558,745**	**3,204,963**
Inventory	*5.9*	438,518	364,517
Short-term financial assets	*5.11*	29,832	57,979
Income tax receivables		16,116	13,244
Trade and other receivables	*5.10*	595,163	509,824
Cash and cash equivalents	*5.12*	192,139	489,754
Non-current assets held for sale	*5.13*	790	3,230
Total current assets		**1,272,558**	**1,438,548**
Total assets		**4,831,303**	**4,643,511**
EQUITY AND LIABILITIES			
Share capital	*6.2*	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge reserve	*8.2*	3,115	10,021
Costs of hedging reserve		(4,625)	-
Actuarial gains		119	311
Other reserve capitals	*6.2*	78,521	78,521
Currency translation reserve		(63,242)	(73,630)
Retained earnings		1,197,479	1,413,913
Equity attributable to shareholders of the parent		**1,969,827**	**2,187,596**
Non-controlling interest	*6.4*	288	(2,951)
Total equity		**1,970,115**	**2,184,645**
Loans, borrowings and other debt instruments	*7.1*	1,340,742	1,130,482
Finance lease liabilities	*7.4*	17,623	20,145
Other non-current liabilities	*7.2*	112,631	103,567
Employee benefits reserve	*7.6*	11,851	10,789
Other provisions	*7.7*	79,080	71,812
Deferred income tax liability	*4.3*	65,662	32,487
Total non-current liabilities		**1,627,589**	**1,369,282**
Loans, borrowings and other debt instruments	*7.1*	291,924	199,437
Finance lease liabilities	*7.4*	5,917	4,743
Trade and other liabilities	*7.3*	761,467	758,581
Income tax liabilities		53,041	47,959
Employee benefits reserve	*7.6*	877	968
Other provisions	*7.7*	120,373	77,896
Total current liabilities		**1,233,599**	**1,089,584**
Total liabilities		**2,861,188**	**2,458,866**
Total equity and liabilities		**4,831,303**	**4,643,511**

The consolidated statement of financial position of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	Note	01.01.-31.12.2018	01.01.-31.12.2017
Cash flows from operating activities			
Net profit/(loss) for the period		**183,491**	**393,975**
Adjustments			
Amortisation/depreciation		275,203	244,388
Recognition of impairment allowances		4,137	1,166
Foreign exchange (profit) /loss		2,012	16,687
Investment property revaluation		1,165	(12,884)
(Profit) / loss on investment activities		(17,309)	(47)
(Profit) / loss on disposal of property, plant and equipment		(3,169)	(813)
Dividends and interest		39,181	32,429
Income tax		127,647	121,770
(Profit) / loss on the settlement of construction contracts (caverns)		1,963	(6,902)
Share of (profit) / loss on equity accounted investees		(516)	(225)
Change in liabilities due to loan arrangement fee		(1,702)	2,614
Valuation of derivatives		15,267	2,248
Ineffective portion of hedge accounting		2,132	(1,287)
Other adjustments		(7,027)	(6,460)
Cash from operating activities before changes in working capital and provisions		**622,475**	**786,659**
Change in receivables	*9.1*	(74,056)	(45,989)
Change in inventory	*9.1*	(49,228)	(68,065)
Change in current liabilities	*9.1*	7,387	66,159
Change in provisions and employee benefits	*9.1*	18,832	(18,007)
Cash generated from operating activities		**525,410**	**720,757**
Interest paid		(40,399)	(49,954)
(Profit) / loss on the settlement of construction contracts (caverns)		19,534	18,868
Income tax (paid)/returned		(39,797)	(48,643)
Expenses for reserch		(10,810)	(12,196)
Net cash from operating activities		**453,938**	**628,832**
Cash flows from investment activities			
Disposal of a subsidiary		69	454
Disposal of intangible assets and property, plant and equipment		7,762	8,070
Disposal of financial assets		60	-
Disposal of investment property		14,380	-
Dividends received		594	1,163
Interest received		6,236	3,940
Subsidies received		2,005	1,091
Proceeds from repaid borrowings		20,887	7,072
Acquisition of a subsidiary (after deduction of acquired cash)		(156,157)	-
Acquisition of intangible assets and property, plant and equipment		(435,148)	(373,893)
Acquisition of financial assets		(8,116)	-
Development expenditures		(25,900)	(9,709)
Expenditure on the purchase of emission rights		(53,298)	(27,318)
Other outflows		(43)	(7)
Net cash from investment activities		**(626,669)**	**(389,137)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

Cash flows from financial activities	*Note*	**01.01.-31.12.2018**	**01.01.-31.12.2017**
Proceeds from loans and borrowings		595,448	-
Other financial inflows		3,534	1,352
Dividends paid to parent company		(395,249)	-
Repayment of loans and borrowings		(321,640)	(438)
Redemption of debt securities		-	(160,000)
Payments of finance lease liabilities		(7,194)	(6,687)
Net cash from financial activities		**(125,101)**	**(165,773)**
Total net cash flows		**(297,832)**	**73,922**
Cash and cash equivalents as at the beginning of the period		**489,754**	**414,369**
Impact of foreign exchange differences		*217*	*1,463*
Cash and cash equivalents as at the end of the period	**5.12**	**192,139**	**489,754**

The consolidated statement of cash flows of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company										
	Share capital	Share premium	Cash flow hedge reserve	Costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
Note	*6.2*		*8.2*			*6.2*					
31.12.2017	**287,614**	**470,846**	**10,021**	**-**	**78,521**	**311**	**(73,630)**	**1,413,913**	**2,187,596**	**(2,951)**	**2,184,645**
Changes in accounting policies	-	-	2,408	(5,240)	-	-	-	(1,356)	**(4,188)**	**-**	**(4,188)**
01.01.2018	**287,614**	**470,846**	**12,429**	**(5,240)**	**78,521**	**311**	**(73,630)**	**1,412,557**	**2,183,408**	**(2,951)**	**2,180,457**
Transactions with the owners	**-**	**-**	**-**		-	-	**771**	**(398,113)**	**(397,342)**	**2,645**	**(394,697)**
Dividend	-	-	-		-	-	-	(395,249)	(395,249)	-	(395,249)
Change in the Group's structure	-	-	-		-	-	771	(2,864)	(2,093)	2,645	552
Total comprehensive income for the period	**-**	**-**	**(9,314)**	**615**	**-**	**(192)**	**9,617**	**183,035**	**183,761**	**594**	**184,355**
Net profit / (loss) for the period	-	-	-	-	-	-	-	183,032	183,032	459	183,491
Other comprehensive income	-	-	(9,314)	615		(192)	9,617	3	729	135	864
31.12.2018	**287,614**	**470,846**	**3,115**	**(4,625)**	**78,521**	**119**	**(63,242)**	**1,197,479**	**1,969,827**	**288**	**1,970,115**
01.01.2017	**287,614**	**470,846**	**(45,306)**		**78,521**	**989**	**(46,336)**	**1,020,499**	**1,766,827**	**(3,335)**	**1,763,492**
Total comprehensive income for the period	**-**	**-**	**55,327**	**-**	**-**	**(678)**	**(27,294)**	**393,414**	**420,769**	**384**	**421,153**
Net profit / (loss) for the period	-	-	-	-	-	-	-	393,413	393,413	562	393,975
Other comprehensive income	-	-	55,327	-	-	(678)	(27,294)	1	27,356	(178)	27,178
31.12.2017	**287,614**	**470,846**	**10,021**	**-**	**78,521**	**311**	**(73,630)**	**1,413,913**	**2,187,596**	**(2,951)**	**2,184,645**

The consolidated statement of changes in consolidated equity of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

1 GENERAL INFORMATION

1.1. INFORMATION ON THE GROUP'S ACTIVITIES

Parent company	**CIECH Spółka Akcyjna**
Registered office	Warsaw
Address	Wspólna Street 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
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

The CIECH Group is an international 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.

The Parent company of the Group is CIECH S.A. It is a holding company that manages domestic and foreign manufacturing, trade and service companies of the Group. CIECH S.A. also provides support services to key subsidiaries. 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.

A detailed description of the CIECH Group entities is provided in note 9.5 to these financial statements.

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

1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group 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 consolidated financial statements of the CIECH Group 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 consolidated 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 the CIECH Group'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 Group'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. 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 consolidated 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

These consolidated financial statements have been prepared on the historical cost basis except for investment property as well as financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These consolidated financial statements have been prepared based on individual financial statements of the CIECH Group's parent company and its subsidiaries, prepared from the accounting ledgers maintained in accordance with the applicable accounting principles of their respective countries of operation. For the purpose of these consolidated financial statements, adjustments have been made to the accounting policies used in the preparation of the abovementioned individual financial statements for them to be aligned with International Financial Reporting Standards.

Since 2007, the Parent Company, CIECH S.A., has been preparing separate financial statements in accordance with IFRS.

Acquisition of the newly acquired company, Proplan Plant Protection Company, S.L., was initially accounted for provisionally, as permitted by IFRS 3 "Business Combinations". This company was included in consolidation as at 26 July 2018 on the basis of the book values of its assets and liabilities.
Next, following the completion of the fair value measurement of the company's identifiable assets, liabilities and contingent liabilities, any adjustments resulting from the completed initial provisional accounting were included in the consolidated financial statements starting from the acquisition date as at subsequent balance sheet dates, including as at the balance sheet date of this report for 2018. For a detailed description of the aforesaid merger, see Section 6.4.1 hereof.

Major accounting principles applied in the preparation of these consolidated financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods except for the changes described in the statement.

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

All entities belonging to the CIECH Group operate according to the financial year corresponding to the calendar year, except for Cerium Sp. z o.o. whose financial year ends on 30 September.

The consolidated statement of profit or loss of the CIECH Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under 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 Group. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these consolidated financial statements have been described in note 1.4.

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of the parent company, CIECH S.A., and the reporting currency of these consolidated financial statements. Unless stated otherwise, all financial data in these consolidated financial statements have been presented in thousands of Polish zlotys (PLN '000).

The functional currencies for the significant foreign subsidiaries are as follows: SDC Group, Ciech Group Financing AB and Proplan Plant Protection Company S.L. – EUR, CIECH Soda Romania S.A. – RON. For the purpose of conversion into PLN, the following foreign exchange rates determined on the basis of quotations announced by the National Bank of Poland ("NBP") have been applied for consolidation purposes:

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

NBP exchange rate as at the end day of the reporting period	31.12.2018[1]	31.12.2017[2]
EUR	4.3000	4.1709
RON	0.9229	0.8953
Average NBP rate for the reporting period	**12 months ended 31.12.2018[3]**	**12 months ended 31.12.2017[4]**
EUR	4.2669	4.2447
RON	0.9165	0.9282

[1] *NBP's average foreign exchange rates table applicable as at 31 December 2018.*
[2] *NBP's average foreign exchange rates table applicable as at 31 December 2017.*
[3] *According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2018 to 31 December 2018.*
[4] *According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2017 to 31 December 2017.*

1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the consolidated financial statements, key accounting policies applicable in the CIECH Group 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 tax assets and liabilities	x	x
5.1	Property, plant and equipment	x	x
5.2	Right of perpetual usufruct of land	x	
5.3	Intangible assets	x	x
5.5	Investment properties	x	x
5.6	Long-term receivables	x	
5.7	Long-term financial assets	x	x
5.8	Shares in joint ventures / investments in associates	x	
5.9	Inventories	x	x
5.10	Short-term receivables	x	x
5.11	Short-term financial assets	x	x
5.12	Cash and cash equivalents	x	x
5.13	Discontinued operations, non-current assets and liabilities connected with non-current assets classified as held for sale	x	x
6.2	Equity	x	
6.4	Business combinations and acquisition of non-controlling interest	x	
6.6	Earnings per share	x	
7.1	Information about significant financial liabilities	x	
7.2	Other non-current liabilities	x	
7.3	Current trade and other liabilities	x	x
7.4	Finance lease	x	
7.5	Operating leases	x	
7.6	Provisions for employee benefits	x	x
7.7	Other provisions	x	x
8.1	Financial instruments	x	x
8.2	Hedge accounting	x	x
9.2	Contingent liabilities and assets	x	x
9.5	Composition of the Group	x	

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

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 consolidated financial statements of the CIECH Group. They are presented below, together with other amendments to IAS/IFRS:

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
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, the CIECH Group adopted new financial reporting standards, IFRS 9 Financial.

Implementation of IFRS 9

For the purpose of the initial application of IFRS 9, the CIECH Group 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 the Group 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 Group'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), the Group 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 was 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 if, and only if, the Group changes its business model for managing financial assets. 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 Group after 31 December 2017, the CIECH Group:

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 *(solely payments of principal and interest).*

Financial assets with the characteristics of debt instruments

Following the analysis, the Group 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 the Group in order to transfer the entire balance of trade receivables agreed with the factor to the factor. The Group manages trade receivables that are designated to be transferred to the factor under non-recourse factoring arrangements with a view to obtaining cash flows through the sale of assets – obtaining contractual cash flows is not an integral part of the business model's objective. Therefore, in accordance with IFRS 9, the Group 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 Group was deemed immaterial.

Equity instruments

The Group hold equity instruments (shares) which are classified as financial assets pursuant to IAS 39 and IFRS 9. Pursuant to IAS 39, the Group 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, the CIECH Group 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 the Group'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
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, the Group 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 and contract assets arising from transactions within the scope of IFRS 15 are exceptions to this rule. For these categories of assets, the Group 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, the CIECH Group calculated allowances based on the expected credit loss model for the following classes of financial instruments:

1. Trade receivables,
2. Factoring receivables,
3. Contract assets from transactions within the scope of IFRS 15,
4. Loans granted,
5. Term deposits, cash.

Hedge accounting

The CIECH Group decided to move to IFRS 9 as regards hedge accounting, as of 1 January 2018. The Group 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 Group to ensure that its hedging relationships are compliant with the risk management strategy applied by the Group 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).
With respect to hedging relationships applied by the Group, IFRS 9 had a material impact on the following two issues:
1. The time value of the gas purchase option, which was left outside hedge accounting by the Group in accordance with IAS 39, was recognised in a separate component of equity as a cost of hedging during the option's life (reclassification from retained earnings to the provision for the costs of hedging).
2. The Group applied a new approach to the basis currency spread for CIRS transactions, excluded it from hedge accounting and recognised it as a cost of hedging in a separate component of equity.

1.5.2 IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods beginning on or after 1 January 2018. The CIECH Group 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 consolidated financial statements of the CIECH Group, the following areas were identified and adjusted in order to implement the standard. Due to the immateriality of other adjustments, only the value of non-cash consideration was adjusted as at 1 January 2018.

Non-cash consideration

Under construction services agreements, in addition to the consideration in cash, the Group receives from the customer the raw materials extracted during the performance of construction works, which are then used by the Group in the production process to manufacture its products. Until the end of 2017, the revenue from gratuitous use of the raw material was not recognised in the financial statements.

In accordance with IFRS 15, in the case of contracts where the customer agreed to pay consideration in a non-cash form, the non-cash consideration is recognised at the transaction price. The Group measures the non-cash consideration at fair value. As a result, revenue to be recognised from the performance of a given agreement will be higher by the fair value of non-cash consideration. The recognition requirements for assets received remain unchanged.

The assets received are initially recognised at the amount and at the time determined in accordance with the standard applicable to the given type of asset, i.e. inventory.

As at 1 January 2018, the value of revenues from non-cash consideration amounted to PLN 2,156 thousand (the impact on equity after deferred tax amounted to PLN 1,489 thousand).

Consignment warehouses

The Group 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 Group 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 Group 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.

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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.

Due to the immateriality of adjustments related to consignment warehouses, the Group decided not to introduce them as at 1 January 2018. Revenue from sales of products delivered to raw material warehouses was recognised in accordance with IFRS 15 in the first quarter of 2018.

Exclusive production

In the silicates and glass segment, some of the sales agreements concern specific products manufactured exclusively for a particular customer. The customer declares the frequency and quantity of products to be received, however, the customer may not refuse to accept the batch of products dispatched. If the customer fails to collect the products within the specified deadline, it bears the storage costs. In accordance with IFRS 15, the Group recognizes revenue from the sale of exclusive production before the customer physically receives the products, whereas in accordance with IAS 18, the revenue was recognized at the moment of transferring the products to the customer.

Due to the immateriality of adjustments related to exclusive production, the Group decided not to introduce them as at 1 January 2018. Revenue from sales of products manufactured exclusively for a particular customer was recognised in accordance with IFRS 15 in the first quarter of 2018.

Impact of the implementation of IFRS 9 and IFRS 15 on the statement of financial position of the CIECH Group as at 1 January 2018

	As at 31.12.2017 before adjustments	IFRS 9 adjustments	IFRS 15 adjustments	As at 01.01.2018 (data restated, unaudited)
ASSETS				
Non-current receivables	81,678	(1,531)	2,156	82,303
Deferred income tax assets	107,411	1,568	-	108,979
Total non-current assets	**3,204,963**	**37**	**2,156**	**3,207,156**
Trade and other receivables	509,824	(5,143)	-	504,681
Cash and cash equivalents	489,754	(571)	-	489,183
Total current assets	**1,438,548**	**(5,714)**	**-**	**1,432,834**
Total assets	**4,643,511**	**(5,677)**	**2,156**	**4,639 990**
EQUITY AND LIABILITIES				
Cash flow hedge	10,021	2,408	-	12,429
Hedging costs	-	(5,240)	-	(5,240)
Reatined earning	1,413,913	(2,845)	1,489	1,412,557
Equity attributable to shareholders of the parent	**2,187,596**	**(5,677)**	**1,489**	**2,183,408**
Non-controlling interest	(2,951)	-	-	(2,951)
Total equity	**2,184,645**	**(5,677)**	**1,489**	**2,180,457**
Deferred income tax liability	32,487	-	667	33,154
Total non-current liabilities	**1,369,282**	**-**	**667**	**1,369,949**
Total liabilities	**2,458,866**	**-**	**667**	**2,459,533**
Total equity and lliabilities	**4,643,511**	**(5,677)**	**2,156**	**4,639,990**

The tables below summarise the impact of the application of IFRS 15 on the Group's consolidated financial statements for the period ended 31 December 2018. In order to ensure comparability of financial data presented in different periods, the Group 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.

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	01.01.-31.12.2018 according to IFRS 15	Non-Cash consideration	Exclusive production	Consignment warehouses	01.01.-31.12.2018 according to IAS 18/IAS 11
CONTINUING OPERATIONS					
Sales revenues	**3,672,658**	**(2,786)**	**(2,013)**	**(7,574)**	**3,660,285**
Cost of sales	(2,909,242)	2,027	1,448	6,279	(2,899,488)
Gross profit/(loss) on sales	**763,416**	**(759)**	**(565)**	**(1,295)**	**760,797**
Other operating income	89,040	-	-	-	89,040
Selling costs	(271,734)	-	171	-	(271,563)
General and administrative expenses	(144,997)	-	-	-	(144,997)
Other operating expenses	(56,525)	-	-	-	(56,525)
Operating profit/(loss)	**379,200**	**(759)**	**(394)**	**(1,295)**	**376,752**
Financial income	19,159	-	-	-	19,159
Financial expenses	(87,737)	-	-	-	(87,737)
Net financial income/(expenses)	**(68,578)**	-	-	-	**(68,578)**
Share of profit / (loss) of equity-accounted investees	516	-	-	-	516
Profit/(loss) before tax	**311,138**	**(759)**	**(394)**	**(1,295)**	**308,690**
Income tax	(127,647)	209	75	207	(127,156)
Net profit/(loss) on continuing operations	**183,491**	**(550)**	**(319)**	**(1,088)**	**181,534**

	31.12.2018 according to IFRS 15	Non-Cash consideration	Exclusive production	Consignment warehouses	31.12.2018 according to IAS 18/IAS 11
ASSETS					
Non-current receivables	64,603	**(2,926)**	-	-	61,677
Deferred income tax assets	77,043	-	-	203	77,246
Total non-current assets	**3,558,745**	**(2,926)**	**-**	**203**	**3,556,022**
Inventory	438,518	-	1,448	6,279	446,245
Trade and other receivables	595,163	-	(2,013)	(7,574)	585,576
Total current assets	**1,272,558**	**-**	**(565)**	**(1,295)**	**1,270,698**
Total assets	**4,831,303**	**(2,926)**	**(565)**	**(1,092)**	**4,826,720**
EQUITY AND LIABILITIES					
Currency translation reserve	(63,242)	(9)	-	-	(63,251)
Retained earnings	1,197,479	**(2,039)**	(319)	(1,088)	1,194,033
Equity attributable to shareholders of the parent	**1,969,827**	**(2,048)**	**(319)**	**(1,088)**	**1,966,372**
Non-controlling interest	288	-			288
Total equity	**1,970,115**	**(2,048)**	**(319)**	**(1,088)**	**1,966,660**
Deferred income tax liability	65,662	**(878)**	(75)	(4)	64,705
Total non-current liabilities	**1,627,589**	**(878)**	**(75)**	**(4)**	**1,626,632**
Trade and other liabilities	761,467	-	(171)	-	761,296
Total current liabilities	**1,233,599**	**-**	**(171)**	**-**	**1,233,428**
Total liabilities	**2,861,188**	**(878)**	**(246)**	**(4)**	**2,860,060**
Total equity and liabilities	**4,831,303**	**(2,926)**	**(565)**	**(1,092)**	**4,826,720**

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. The CIECH Group has not elected to early adopt the standard and decided to adopt it for use from 1 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.

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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 Group, 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 0.81% and 7.69% (for PLN 3.39%-5.74%; for EUR 0.81%-5.73% for USD 4.92%-7.12%; for RON 5.37%-7.69%).

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.

Additionaly, the Group companies recognised the land perpetual usufruct right received free of charge on the basis of an administrative decision as an operating lease. Within the meaning of IFRS 16, land perpetual usufruct right is treated as a lease and the recognition of the assets held by the Group on this account has, first and foremost, a significant impact on total assets.

The Group 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 Group 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 consolidated financial statements of the CIECH Group on January 1, 2019 is as follows (amounts refer to newly recognized assets):

	01.01.2019
Recognized rights to use an asset	117,685
Recognized liabilities from lease	117,685

2 SEGMENT REPORTING

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

From the product perspective, the CIECH Group 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 – the CIECH Group is a producer of a variety of organic compounds manufactured by the companies: CIECH Sarzyna S.A. and Ciech Pianki Sp. z o.o. In 2018, it was producing, among others, polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. The Group also produces crop protection chemicals used in agriculture – including through the Spanish company, Soda segment goods are used in the glass, food, detergent and pharmaceutical industries, acquired in July 2018.

Silicates and glass segment includes mainly the products of CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A. Products manufactured by Ciech Soda Romania S.A. are sold by CIECH S.A. The Silicates and Glass Segment covers the production of glass and soda glaze, as well as glass packaging (lanterns and jars). The goods made of glass are used in construction and food industries, and for production of headstone lamps.

The transport segment is concentrated in CIECH Cargo Sp. z o.o., rendering rail transport services in Poland, within the scope of: rental of rail carriages, rail cargo transport and maintenance services of rail sidings. The Transport segment includes also forwarding activities carried out by CIECH S.A. for its subsidiaries, i.e. CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Soda Polska S.A. and CIECH Trading S.A.

Other activities segment covers mainly services rendered outside the Group and goods sold mainly by CIECH S.A. and CIECH Trading S.A.

Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management accounting.

The Group financing is managed (including finance expenses and income with the exception of interest and exchange differences on trade receivables and liabilities) and income tax is calculated on the Group level and they are not allocated to particular segments.

The CIECH Group has been divided into the following geographical areas: Poland, European Union, Other European countries, Africa, Asia, Other regions. Information on the Group geographical areas is established based on the Group's assets localisation.

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 consolidated 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. The reconciliation and definitions applied by the CIECH Group when determining these measures are presented below.

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	01.01.-31.12.2018	01.01.-31.12.2017
Net profit/(loss) on continuing operations	183,491	393,975
Income tax	127,647	121,770
Share of profit / (loss) of equity-accounted investees	(516)	(225)
Financial expenses	87,737	86,787
Financial income	(19,159)	(13,499)
Amortisation/depreciation	275,203	244,388
EBITDA from continuing operations	**654,403**	**833,196**

	01.01.-31.12.2018	01.01.-31.12.2017
EBITDA from continuing operations	**654,403**	**833,196**
One-offs including:	(20,910)	(25,059)
Impairment (a)	2,203	1,238
Cash items (b)	(16,654)	(2,017)
Non-cash items (without impairment) (c)	(6,459)	(24,280)
Adjusted EBITDA from continuing operations	**633,493**	**808,137**

(a) Impairment losses are associated with the recognition/reversal of impairment write-downs of assets value.
(b) Cash items include, among others, gain/loss of the sale of property, plant and equipment and other items (including costs associated with discontinued operations, fees and compensations).
(c) Non-cash items include: fair value measurement of investment properties, costs of liquidation of inventories and property, plant and equipment, the costs of suspended investments, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity and other items (including extraordinary costs and other provisions).

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

OPERATING SEGMENTS OF THE CIECH GROUP

Revenue and costs data as well as assets, equity and liabilities data of particular CIECH Group 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 - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,366,114	885,344	248,887	16,772	155,541	-	-	3,672,658
Revenue from inter-segment transactions	56,454	355	82	130,408	34,006	-	(221,305)	-
Total sales revenues	**2,422,568**	**885,699**	**248,969**	**147,180**	**189,547**	**-**	**(221,305)**	**3,672,658**
Cost of sales	(1,819,703)	(729,278)	(196,656)	(129,196)	(154,454)	-	120,045	(2,909,242)
Gross profit /(loss) on sales	**602,865**	**156,421**	**52,313**	**17,984**	**35,093**	**-**	**(101,260)**	**763,416**
Selling costs	(247,197)	(79,086)	(32,157)	(3,753)	(11,084)	(223)	101,766	(271,734)
General and administrative expenses	(59,253)	(21,776)	(4,506)	(4,361)	(5,627)	(53,636)	4,162	(144,997)
Result on management of receivables	(1,149)	(1,059)	(13)	(129)	(1,988)	-	-	(4,338)
Result on other operating activities	35,353	(12,080)	(1,179)	3,897	15,267	(589)	(3,816)	36,853
Operating profit /(loss)	**330,619**	**42,420**	**14,458**	**13,638**	**31,661**	**(54,448)**	**852**	**379,200**
Exchange differences and interest on trade settlements	(7,182)	(18,810)	179	(380)	(586)	-	-	(26,779)
Group borrowing costs	-	-	-	-	-	(60,390)	-	(60,390)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	18,591	-	18,591
Share of profit / (loss) of equity-accounted investees	516	-	-	-	-	-	-	516
Profit /(loss) before tax	**323,953**	**23,610**	**14,637**	**13,258**	**31,075**	**(96,247)**	**852**	**311,138**
Income tax	-	-	-	-	-	-	-	(127,647)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183,491**
Amortization/depreciation	209,234	33,961	19,964	5,747	1,103	5,194	-	275,203
EBITDA	539,853	76,381	34,422	19,385	32,764	(49,254)	852	654,403
Adjusted EBITDA*	536,856	75,983	34,603	15,333	19,560	(49,693)	851	633,493

** Adjusted EBITDA for the 12-month period ended 31 December 2018 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment properties to fair value: PLN -1 million; changes in provisions: PLN 13.3 million; gain on disposal of non-financial non-current assets: PLN 17.8 million, change in impairment losses on assets: PLN -2.2 million, settlement of a cavern construction contract: PLN -5.4 million; other: PLN -1.6 million.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

OPERATING SEGMENTS 01.01.-31.12.2017	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,381,486	869,189	229,336	11,097	88,285	-	-	3,579,393
Revenue from inter-segment transactions	48,434	2,368	9	113,357	34,507	-	(198,675)	-
Total sales revenues	**2,429,920**	**871,557**	**229,345**	**124,454**	**122,792**	**-**	**(198,675)**	**3,579,393**
Cost of sales	(1,673,847)	(718,489)	(176,945)	(107,599)	(94,694)	-	108,845	(2,662,729)
Gross profit /(loss) on sales	**756,073**	**153,068**	**52,400**	**16,855**	**28,098**	**-**	**(89,830)**	**916,664**
Selling costs	(242,522)	(62,046)	(30,019)	(2,966)	(11,165)	(1,119)	86,356	(263,481)
General and administrative expenses	(59,905)	(19,688)	(5,058)	(3,644)	(5,580)	(49,586)	2,059	(141,402)
Result on management of receivables	8,227	1,823	83	-	(197)	-	-	9,936
Result on other operating activities	61,162	(6,283)	(219)	(481)	12,701	807	(596)	67,091
Operating profit /(loss)	**523,035**	**66,874**	**17,187**	**9,764**	**23,857**	**(49,898)**	**(2,011)**	**588,808**
Exchange differences and interest on trade settlements	(16,322)	(11,621)	(279)	(137)	432	-	-	(27,927)
Group borrowing costs	-	-	-	-	-	(38,352)	-	(38,352)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(7,009)	-	(7,009)
Share of profit / (loss) of equity-accounted investees	225	-	-	-	-	-	-	225
Profit /(loss) before tax	**506,938**	**55,253**	**16,908**	**9,627**	**24,289**	**(95,259)**	**(2,011)**	**515,745**
Income tax	-	-	-	-	-	-	-	(121,770)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**393,975**
Amortization/depreciation	181,335	29,894	19,657	5,846	2,443	5,213	-	244,388
EBITDA	704,370	96,768	36,844	15,610	26,300	(44,685)	(2,011)	833,196
Adjusted EBITDA*	690,667	96,517	36,768	16,064	14,858	(44,727)	(2,010)	808,137

** Adjusted EBITDA for the 12-month period ended 31 December 2017 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment properties to fair value: PLN 11.5 million; changes in provisions: PLN 10.4 million; gain on disposal of non-financial non-current assets: PLN 2.9 million, change in impairment losses on assets: PLN -1.2 million, other: PLN 1.5 million.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN ‘000)

SALES REVENUES — BUSINESS SEGMENTS

	01.01.-31.12.2018	01.01.-31.12.2017	Change 2018/2017	Change %
Soda segment, including:	**2,422,568**	**2,429,920**	**(7,352)**	**(0.3%)**
Dense soda ash	1,308,146	1,371,834	(63,688)	(4.6%)
Light soda ash	498,849	490,220	8,629	1.8%
Salt	184,819	169,909	14,910	8.8%
Sodium bicarbonate	159,978	158,309	1,669	1.1%
Energy	143,154	97,645	45,509	46.6%
Gas*	3,367	7,645	(4,278)	(56.0%)
Calcium chloride	26,815	25,614	1,201	4.7%
Other products	40,986	60,310	(19,324)	(32.0%)
Revenues from inter-segment transactions	56,454	48,434	8,020	16.6%
Organic segment, including:	**885,699**	**871,557**	**14,142**	**1.6%**
Resins	326,518	316,452	10,066	3.2%
Polyurethane foams	317,222	314,174	3,048	1.0%
Crop protection chemicals	240,488	224,032	16,456	7.3%
Other	1,116	14,531	(13,415)	(92.3%)
Revenues from inter-segment transactions	355	2,368	(2,013)	(85.0%)
Silicates and Glass segment, including:	**248,969**	**229,345**	**19,624**	**8.6%**
Sodium silicates	167,896	144,291	23,605	16.4%
Potassium silicates	6,305	5,696	609	10.7%
Container glass	73,270	78,578	(5,308)	(6.8%)
Other	1,416	771	645	83.7%
Revenues from inter-segment transactions	82	9	73	811.1%
Transport segment, including:	**147,180**	**124,454**	**22,726**	**18.3%**
Transport services	16,772	11,097	5,675	51.1%
Revenues from inter-segment transactions	130,408	113,357	17,051	15.0%
Other segment, including:	**189,547**	**122,792**	**66,755**	**54.4%**
Revenues from third parties	155,541	88,285	67,256	76.2%
Revenues from inter-segment transactions	34,006	34,507	(501)	(1.5%)
Consolidation adjustments	**(221,305)**	**(198,675)**	**(22,630)**	**(11.4%)**
TOTAL	**3,672,658**	**3,579,393**	**93,265**	**2.6%**

** Resale of surpluses of the gas purchased.*

In the CIECH Group, sales revenues are recognized when the service is performed, products or goods are delivered.

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Soda segment	2,952,682	2,686,089	279,805	229,225
Organic segment	906,909	577,815	145,097	122,413
Silicates and glass segment	154,512	162,562	25,211	31,021
Transport segment	69,314	61,345	12,319	12,070
Other operations segment	50,298	110,002	30,272	25,026
Corporate functions - reconciliation item	741,469	1,080,556	2,413,317	2,071,535
Eliminations (consolidation adjustments)	(43,881)	(34,858)	(44,833)	(32,424)
TOTAL	**4,831,303**	**4,643,511**	**2,861,188**	**2,458,866**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

INFORMATION ON GEOGRAPHICAL AREAS

Information on the CIECH Group geographical areas is established based on the Group's assets localisation.

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
31.12.2018				
Poland	2,221,115	77,043	829,814	3,127,972
European Union (excluding Poland)	1,244,721	-	338,863	1,583,584
Other European countries	-	-	44,549	44,549
Africa	-	-	12,699	12,699
Asia	-	-	62,142	62,142
Other regions	-	-	357	357
TOTAL	**3,465,836**	**77,043**	**1,288,424**	**4,831,303**
31.12.2017				
Poland	2,178,433	107,411	1,067,014	3,352,858
European Union (excluding Poland)	875,457	-	321,984	1,197,441
Other European countries	-	-	35,286	35,286
Africa	-	-	3,779	3,779
Asia	-	-	53,590	53,590
Other regions	-	-	557	557
TOTAL	**3,053,890**	**107,411**	**1,482,210**	**4,643,511**

SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-31.12.2018	01.01.-31.12.2017	Dynamics 2018/2017
Poland	1,492,186	1,500,408	(0.5%)
European Union (excluding Poland)	1,556,532	1,526,253	2.0%
Germany	647,055	621,853	4.1%
Romania	134,716	149,126	(9.7%)
Czech Republic	146,935	154,711	(5.0%)
Italy	79,330	82,034	(3.3%)
The Netherlands	118,111	114,798	2.9%
Finland	66,238	57,896	14.4%
Sweden	58,443	74,214	(21.3%)
Belgium	28,128	35,641	(21.1%)
United Kingdom	45,522	48,762	(6.6%)
Denmark	25,548	24,314	5.1%
France	17,886	41,566	(57.0%)
Luxembourg	21,812	15,613	39.7%
Lithuania	15,391	17,744	(13.3%)
Other EU countries	151,417	87,981	72.1%
Other European Countries	264,229	242,049	9.2%
Switzerland	118,566	100,014	18.5%
Norway	37,008	39,831	(7.1%)
Russia	23,073	22,039	4.7%
Other European countries	85,582	80,165	6.8%

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

	01.01.-31.12.2018	01.01.-31.12.2017	Dynamics 2018/2017
Africa	63,977	54,532	17.3%
Asia	239,295	187,875	27.4%
India	124,986	126,855	(1.5%)
Singapore	11,397	16,560	(31.2%)
Bangladesh	16,172	3,666	341.1%
Hong Kong	25,078	9,784	156.3%
Turkey	25,837	15,640	65.2%
Other Asian countries	35,825	15,370	133.1%
Other regions	31,243	33,719	(7.3%)
Cash flow hedge adjustment	25,196	34,557	(27.1%)
TOTAL	**3,672,658**	**3,579,393**	**2.6%**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

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

3.1. SALES REVENUES

Accounting policy

The Group 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 Group 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.

Allocation of variable consideration

Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract. Allocation to the entire contract is done based on standalone selling prices of underlying performance obligations.

Revenues from the sales of products and goods in foreign currencies 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.

SALES REVENUES	01.01.-31.12.2018	01.01.-31.12.2017
Revenues from sales of products and services	**3,473,482**	**3,467,900**
- products	3,431,092	3,439,511
- services	42,390	28,389
Revenues from sales of goods and materials	**199,176**	**111,493**
- goods	192,094	108,552
- materials	7,082	2,941
Net sales of products, goods and materials	**3,672,658**	**3,579,393**

3.2. COST OF SALES

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 products and services sold and the value of sold goods and materials.

Selling costs include, among others: 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	01.01.-31.12.2018	01.01.-31.12.2017
Cost of manufacture of products and services sold	(2,728,686)	(2,569,707)
Cost of sold goods and materials sold	(178,214)	(92,402)
Reversal of impairment losses on inventory	7,794	6,922
Recognition of impairment losses on inventory	(10,136)	(7,542)
TOTAL	**(2,909,242)**	**(2,662,729)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2018	01.01.-31.12.2017
Amortisation	(275,102)	(243,885)
Consumption of materials and energy	(1,968,642)	(1,819,018)
Employee benefits, including:	(336,602)	(338,857)
- payroll	(277,483)	(273,670)
- social security and other benefits	(57,300)	(63,288)
- expenditure on retirement benefit and jubilee awards (including provisions)	(675)	(781)
- expenditure on pension schemes with defined benefits	(401)	(402)
- other	(743)	(716)
External services	(458,968)	(395,324)

3.4. OTHER INCOME AND EXPENSES

Accounting policy

The reporting period's results are also affected by other operating income and expenses indirectly related to the Group's core operations. The key items include:

- ✓ gains/ losses on disposal and liquidation of non-financial non-current assets,
- ✓ gains/ losses on sales of emission rights,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables) and recognition/ reversal of provisions,
- ✓ 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,
- ✓ gains/losses on valuation of fair value of investment property,
- ✓ unused production capacity.

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.

Government subsidies related to assets, including non-monetary subsidies at fair value, are presented in the balance sheet by setting up the subsidy as deferred income. It is recognised as income over the useful life of the asset. Repayment of a subsidy related to income should be applied first against any unamortised deferred credit set up in respect of the subsidy. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be recognised immediately in profit or loss. Repayment of a subsidy related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.

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.

For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.

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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

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.

OTHER OPERATING INCOME	01.01.-31.12.2018	01.01.-31.12.2017
Subsidies	10,858	11,481
The right to emit greenhouse gases	7,303	24,920
Rents/lease income	3,183	2,904
Gain on disposal of non-financial non-current assets	17,852	579
Reversal of impairment allowances on receivables	3,381	11,445
Reversal of impairment losses on property, plant and equipment and intangible assets	580	1,727
Reversal of provisions on employee benefits	670	1,262
Reversal of provisions for compensation – changing the base	204	5,035
Reversal of provisions for environmental protection – changing the base	3,030	464
Reversal of provisions for liabilities – changing the base	5,789	9,941
Reversal of other provisions- changing the base	12,356	4,607
Penalty fees and compensations received	1,152	1,777
Refund of taxes and charges	4,319	4,156
Revenues from caverns	-	6,902
Valuation of investment property in fair value	-	11,515
Other services	3,579	3,427
Other	14,784	14,418
TOTAL	**89,040**	**116,560**

As at 31 December 2018, the CIECH Group made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment. These analyses did not indicate the need to estimate the recoverable value.

Subsidies

Subsidies recognised in the statement of profit or loss in the reporting period amounted to PLN 10,858 thousand (PLN 11,481 thousand in the comparable period) settled over time in proportion to the depreciation/amortisation of non-current assets to which they relate. Subsidies included in liabilities as at 31 December 2018 amounted to PLN 74,848 thousand (compared to PLN 82,604 thousand as at 31 December 2017). The CIECH Group companies receive subsidies for research and development activities, purchase of property, plant and equipment and for adapting investment projects to environmental requirements. The subsidies are mainly received by the CIECH Group companies from the European Regional Development Fund.

The most significant subsidies are as follows:

SIGNIFICANT SUBSIDIES RECEIVED BY:	CIECH Soda Polska S.A.	CIECH Sarzyna S.A.	CIECH R&D Sp. z o.o.
"Establishment of an exhaust gas desulphurisation plant in CHP plant in Janikowo"	15,904		
"Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowrocław"	10,930		
Reduction of dust emissions from the Inowrocław CHP Plant by modernising boiler ESPs – OP 110 No 1, 2, 3, 4	5,727		
"Developing and testing, on a demonstrable scale, internationally innovative agro-chemical preparations of a unique composition and formulation"		14,645	
Establishment of a Research and Development Center of CIECH R&D Sp. z o.o.			6,031

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

Other forms of State aid

The R&D activity is an important tool in the development of the CIECH Group contributing to increasing the company's value by enhancing innovation and developing a portfolio of state-of-the-art, advanced products ensuring high profitability of the business. Product development is possible mainly owing to the own research activities, including research activities conducted as part of co-financed projects. In 2018, the CIECH Group companies implementing research and development projects under the Smart Growth Operational Programme received approximately PLN 2 million in reimbursement under the co-financing agreements signed.

In 2018, CIECH Cargo Sp. z o.o. received the first funding in its history. The company may draw on a grant of PLN 14.2 million for the purchase of rolling stock used for intermodal transport, which will allow the company to expand its portfolio of transport services offered.

The CIECH Group companies operating outside Poland also benefit from the available sources of state aid. CIECH Soda Romania S.A., operating in Romania, received RON 918 thousand (EUR 200 thousand) for the implementation of a project aimed at building a smart energy monitoring system.

Desalination of caverns

The SDC Group, in accordance with *IAS 15 Revenue from contracts with customers*, attributes revenues and costs connected with contracts concerning cavern desalination to particular periods in which the works were conducted.

Project 2 (Project 1 has been completed) – the Contract includes the sale of mining rights, land and preparation of four gas caverns (S113to S116). The stage of completion is determined as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work.

Revenue recognised in statement of profit or loss represent the amount of the expected sales revenues multiplied by the percentage of completion of the contract in the accounting period.

In 2018, no revenues from the cavern desalination contract were recognised, while in the corresponding period these revenues amounted to PLN 6,902 thousand (EUR 1,626 thousand). The receivables relating to the cavern desalination contracts (Project 2) recognised in assets as long-term receivables amounted to PLN 64,517 thousand (EUR 15,004 thousand) as at the end of 2018. As at 31 December 2017, they amounted to PLN 81,552 thousand (EUR 19,553 thousand). The total amount of costs incurred and profits recognised (less recognised losses) due to ongoing contracts for the period of duration of these contracts amounted to PLN 151,394 thousand (in the comparable period: PLN 143,704 thousand).

OTHER OPERATING EXPENSES	01.01.-31.12.2018	01.01.-31.12.2017
Costs related to investment property	(1,803)	(1,648)
Recognition of impairment losses on receivables	(7,719)	(1,509)
Recognition of impairment losses on property, plant and equipment and intangible assets	(2,783)	(2,965)
Recognition of provisions on employee benefits	(1,914)	(1,279)
Recognition of provisions for compensation – changing the base	(876)	(884)
Recognition of provisions for environmental protection – changing the base	(2,539)	(50)
Recognition of provisions for liabilities – changing the base	(3,321)	(2,686)
Recognition of provision for anticipated losses - changing the base	(90)	(1,677)
Recognition of other provisions - changing the base	-	(1,455)
Liquidation costs of property, plant and equipment	(183)	(362)
Liquidation costs of materials	(544)	(1,622)
Amortisation/depreciation	(101)	(503)
Costs of idle assets and production capacity	(18,990)	(11,053)
Costs of remediating the effects of fortuitous events	(2,003)	(797)
Valuation of investment property at fair value	(1,040)	-
Receivables written-off	(68)	(3,759)
Penalties and compensations paid	(1,883)	(1,129)
Other	(10,668)	(6,155)
TOTAL	**(56,525)**	**(39,533)**

The total amount of expenditure on research and development expensed in the period, as not meeting the capitalisation criteria, amounted to PLN 2,245 thousand (PLN 1,464 thousand in the comparable period).

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

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. Accordingly, key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ interest earned by the Group 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 Group's right to receive payment is established,
- ✓ write-downs on investments,
- ✓ net foreign exchange gains or losses,
- ✓ gains/ losses on sales of financial assets,
- ✓ ineffective portion of hedge accounting.

FINANCIAL INCOME	01.01.-31.12.2018	01.01.-31.12.2017
Interest	6,852	6,158
Dividends and shares in profit	379	737
Net foreign exchange gains	6,241	-
Reversal of impairment losses	622	968
Decrease in provisions due to change in discount rate	-	3,031
Income from liquidated companies	72	454
Ineffective portion of hedge accounting	-	1,287
Balance sheet valuation of derivative financial instruments	112	-
Reversal of provision of financial liabilities - changing the base	35	748
Other	4,846	116
TOTAL	**19,159**	**13,499**

FINANCIAL EXPENSES	01.01.-31.12.2018	01.01.-31.12.2017
Interest	(63,518)	(41,059)
Net foreign exchange losses	-	(32,603)
Recognition of other impairment losses	(3,497)	(989)
Factoring commissions	(4,032)	(3,996)
Bank fees and commissions	(3,574)	(3,523)
Recognised provisions	(1,347)	(1,321)
Increase in provisions due to change in discount rates	(6,016)	(513)
Costs of discounting of liabilities	(1,181)	-
Ineffective portion of hedge accounting	(2,132)	-
Other	(2,440)	(2,783)
TOTAL	**(87,737)**	**(86,787)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group

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
Net currency at translation differences	8,808	945	9,753	(24,121)	(3,351)	(27,472)
Cash flow hedge reserve	(12,489)	3,174	(9,315)	69,226	(13,899)	55,327
Costs of hedging reserve	615	-	615	-	-	-
Valuation of actuarial provisions	(235)	43	(192)	(834)	156	(678)
Other components of other comprehensive income	3	-	3	1	-	1
TOTAL	**(3,298)**	**4,162**	**864**	**44,272**	**(17,094)**	**27,178**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2018	01.01.-31.12.2017
Currency translation differences (foreign companies)	**8,808**	**(24,121)**
remeasurement for the current period	8,808	(24,121)
Cash flow hedge reserve	**(12,489)**	**69,226**
fair value remeasurement in the period	(7,971)	80,207
reclassification to profit or loss	(4,518)	(10,981)
Costs of hedging reserve	**615**	**-**
fair value remeasurement in the period	615	-
reclassification to profit or loss	-	-
Valuation of actuarial provisions	**(235)**	**(834)**
remeasurement for the current period	(235)	(834)
reclassification to profit or loss	-	-
Other components of other comprehensive income	**3**	**1**
remeasurement for the current period	3	1
reclassification to profit or loss	-	-
Income tax attributable to other components of other comprehensive income	**4,162**	**(17,094)**
accrued for the current period	3,322	(19,353)
reclassification to profit or loss	840	2,259
Other comprehensive income net of tax	**864**	**27,178**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

4 INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

4.1. MAIN COMPONENTS OF TAX EXPENSE

Accounting policy

Current tax

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.

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	**(86,013)**	**(49,605)**
Income tax for the reporting period	(45,251)	(43,131)
Adjustment to tax for previous years	(40,762)	(6,474)
Deferred tax	**(41,634)**	**(72,165)**
Origination/reversal of temporary differences	(61,693)	(37,813)
Unrecognized deferred tax assets	20,059	(34,352)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(127,647)**	**(121,770)**

Under the current income tax, the Group presented, among others, 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
Net currency at translation differences	945	(3,351)
Cash flow hedge	3.174	(13,899)
Valuation of actuarial provisions	43	156
TOTAL	**4,162**	**(17,094)**

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Group'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 tax	**311,138**	**515,745**
Income tax based on currently enacted tax rate	**(59,116)**	**(97,992)**
Difference due to the application of tax rates of other tax jurisdictions	(3,749)	(7,871)
Withholding tax unrealised	(58)	(386)
Tax effect of revenues adjusting profit (loss) before taxes (permanent difference)	7,288	6,162
Effect of participation in equity-accounted investees	64	132
Tax effect of costs adjusting profit (loss) before taxes (permanent difference)	(23,501)	(11,347)
Current income tax adjustment of previous years	(44,619)	(4,028)
Realese od deferred tax asset from tax losses from previous years	(8,396)	-
Tax losses from statement periods from which deferred tax asset was not included	-	(13)
Special economic zone	4,165	10,457
Tax reliefs	187	(145)
Settlement of the asset for deferred tax	(1,048)	(14,717)
Other	1,136	(2,022)
Income tax recognised in income statement	**(127,647)**	**(121,770)**
EFFECTIVE TAX RATE	**41.0%**	**23.6%**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

4.3. DEFERRED INCOME TAX

Accounting policy

Deferred tax

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
- ✓ unless 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 statement is itself recognised outside profit or loss: 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 tax

Deferred income tax asset is based on the assumption that future taxable profit will allow for its usage. In determining the amount of deferred tax assets, the CIECH Group subsidiaries base their 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	1,664	151,728	(150,064)	2,199	140,234	(138,035)
Intangible assets	8,005	25,334	(17,329)	12,258	333	11,925
Right of perpetual usufruct	-	5,003	(5,003)	-	5,074	(5,074)
Investment property	1,043	1,555	(512)	2,003	1,761	242
Financial assets	646	13,899	(13,253)	700	16,983	(16,283)
Inventory	2,645	1,916	729	2,123	2,077	46
Trade and other receivables	4,869	23,445	(18,576)	2,448	30,172	(27,724)
Provisions for employee benefits	2,455	3	2,452	2,673	31	2,642
Other provisions	17,067	-	17,067	20,007	-	20,007
Tax losses carried forward	43,521	-	43,521	84,999	-	84,999

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

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
Foreign exchange differences	2,492	281	2,211	3,664	20	3,644
Liabilities	52,921	62	52,859	46,927	810	46,117
Special economic zone	131,278	-	131,278	132,535	-	132,535
Other	161	12,003	(11,842)	2,952	752	2,200
Cash and cash equivalents	103	-	103	-	-	-
Deferred tax assets/liability	**268,870**	**235,229**	**33,641**	**315,488**	**198,247**	**117,241**
Set - off of deferred tax assets/ liability	(169,567)	(169,567)	-	(165,760)	(165,760)	-
Unrecognized deferred tax assets	(22,260)	-	(22,260)	(42,317)	-	(42,317)
Deferred tax assets/liability recognised in the statement of financial position	**77,043**	**65,662**	**11,381**	**107,411**	**32,487**	**74,924**

The Group estimates that over 12 months from the period for which the consolidated financial statements are presented, the deferred tax asset will be realized in the amount of PLN 160,094 thousand. In the same period, the estimated amount of deferred tax provision will amount to PLN 202,503 thousand.

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2018	Changes in accounting policies	Opening balance after adjustments	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	Change in Group's composition	31.12.2018
Property, plant and equipment	(638,940)	-	(638,940)	(53,553)	-	(5,094)	-	(697,587)
Intangible assets	39,239	-	39,239	(16,696)	-	(320)	(103,639)	(81,416)
Right of perpetual usufruct	(26,703)	-	(26,703)	371	-	-	-	(26,332)
Investment property	13,629	-	13,629	(5,320)	-	-	-	8,309
Long-term receivables	-	625	625	(625)	-	-	-	-
Financial assets	(155,748)	-	(155,748)	39,012	(18,442)	(489)	-	(135,667)
Inventory	322	-	322	3,594	-	-	-	3,916
Trade and other receivables	(89,488)	5,143	(84,345)	32,054	-	(1,481)	-	(53,772)
Provisions for employee benefits	13,837	-	13,837	(1,256)	236	142	-	12,959
Other provisions	63,892	-	63,892	(3,059)	-	1,770	-	62,603
Tax losses carried forward	447,860	-	447,860	(214,620)	-	-	-	233,240
Foreign exchange differences	25,540	-	25,540	(10,379)	2,827	-	-	17,988
Liabilities	165,899	-	165,899	45,006	-	2,599	-	213,504
Other	11,068	-	11,068	(72,902)	-	-	-	(61,834)
Cash and cash equivalents	-	112	112	(10)	-	-	-	102
TOTAL	**(129,593)**	**5,880**	**(123,713)**	**(258,383)**	**(15,379)**	**(2,873)**	**(103,639)**	**(503,987)**

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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	Currency translation differences	31.12.2017
Property, plant and equipment	(609,996)	(39,458)	-	10,514	(638,940)
Intangible assets	142,488	(102,222)	-	(1,027)	39,239
Right of perpetual usufruct	(27,089)	386	-	-	(26,703)
Investment property	14,091	(462)	-	-	13,629
Financial assets	(123,503)	(27,937)	(5,770)	1,462	(155,748)
Inventory	8,237	(7,917)	-	2	322
Trade and other receivables	(96,151)	577	-	6,086	(89,488)
Provisions for employee benefits	16,705	(3,228)	834	(474)	13,837
Other provisions	72,270	(4,719)	-	(3,659)	63,892
Tax losses carried forward	733,710	(285,844)	-	(6)	447,860
Foreign exchange differences	24,584	17,301	(16,345)	-	25,540
Liabilities	239,057	(67,387)	-	(5,771)	165,899
Other	(8,764)	19,833	-	(1)	11,068
TOTAL	**385,639**	**(501,077)**	**(21,281)**	**7,126**	**(129,593)**

The above table does not contain any temporary differences from the deferred tax asset of the special economic zone as according to the rules, the above-mentioned relief is tax-deductible rather than income-deductible.

Dividend payment to the shareholders of the CIECH Group has no effect on deferred tax.

The CIECH Group companies who recognised deferred tax assets in respect of tax loss carried forward, on the basis of their tax budgets, predict that sufficient taxable profits will be realised within period possible to use losses against which the Group can utilise the benefits therefrom. In one of Group's companies, deffered tax asset in respect of tax loss carried forward was realesed up to the amount possible to use on the basis of its tax budget.

In August 2016, the headcount-related condition provided for in the Zone Permit No 126/PSSE dated 23 May 2014 for carrying out business activities in the Pomeranian Special Economic Zone, was fulfilled. Thereby CIECH Soda Polska S.A. had fulfilled all the conditions related to the Zone Permit and, as of 1 September 2016, started to take advantage of its exemption from the corporate income tax on account of operations carried out in the Pomeranian Special Economic Zone. In view of the above, in 2016 CIECH Soda Polska S.A. recognised a deferred tax asset of PLN 95,422 thousand. Following the receipt of explanations from the European Commission, via the Office for Competition and Consumer Protection, regarding the definition and calculation of the value of a single investment project, the value of available State aid determined for the Company increased by PLN 44,911 thousand in 2017. The Company cautiously analyzed the capabilities of using available public aid by calculating the amount of the exemption in accordance with the methodology adopted in this respect and decided to recognise PLN 10,457 thousand in the financial statements for 2017, for 2018 an additional amount of the deferred tax asset due to operating in a special economic zone, i.e. PLN 20,939 thousand, and not to recognize a deferred income tax asset in the amount of PLN 13,515 thousand. As at the end of 2018, after the remeasurement, the asset resulting from operations carried out in the Special Economic Zone is PLN 117,763 thousand.

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 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Own property, plant and equipment

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.

Property, plant and equipment used under finance lease agreements

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of an item of property, plant and equipment are classified as finance leases. Upon initial recognition the leased item of property, plant and equipment is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset's carrying amount is decreased by accumulated depreciation and accumulated impairment losses.

In the case of an asset used under a finance lease, if it is not reasonably certain that the lessee will obtain ownership of the asset by the end of the lease term, then the tangible asset is depreciated over one of the following two periods, whichever shorter:

- ✓ the lease term,
- ✓ the expected useful life of the asset.

When an agreement is classified as a finance lease, the underlying asset is recognised within the Company's (lessee's) property, plant and equipment and is depreciated in accordance with principles specified below. Payments under operating lease agreements are recognised as an expense over the lease term.

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 Group 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 Group 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	20-50 years
Machinery and equipment	2-20 years
Means of transport	2-20 years
Other	1-15 years

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Borrowing costs

For qualifying assets, the borrowing costs that otherwise would have been avoided if the expenditure on the qualifying asset has not been made are included in purchase price of these assets. The amount of borrowing costs eligible for capitalisation is defined as the appropriate portion of loan interest, the cost of arranging financing and respectively foreign exchange differences on foreign currency loans.

Judgements and estimates

Depreciation rates. These 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.

01.01.-31.12.2018	Land	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	**79,737**	**1,154,203**	**2,919,663**	**107,552**	**46,055**	**342,673**	**4,649,883**
Purchase	-	18,268	25,260	8,526	3,966	379,217	435,237
Reclassification	-	82,706	184,243	(898)	5,260	(326,820)	(55,509)
Capitalised borrowing costs	-	-	-	-	-	5,884	5,884
Exchange differences	2,427	7,273	28,758	557	345	4,366	43,726
Sales	-	(2,585)	(1,798)	(238)	(6)	-	(4,627)
Liquidation	-	(2,671)	(14,395)	(455)	(1,679)	(4,865)	(24,065)
Change in the Group's structure	-	-	323	340	34	-	697
Other	-	894	(10,179)	-	-	-	(9,285)
Gross value of property, plant and equipment at the end of the period	**82,164**	**1,258,088**	**3,131,875**	**115,384**	**53,975**	**400,455**	**5,041,941**
Accumulated depreciation at the beginning of the period	**(10,977)**	**(480,434)**	**(1,348,495)**	**(59,136)**	**(31,608)**	**-**	**(1,930,650)**
Annual depreciation charge	-	(57,348)	(195,572)	(7,350)	(5,510)	-	(265,780)
Sales	-	1,377	1,794	209	6	-	3,386
Liquidation	-	2,322	13,999	433	1,649	-	18,403
Change in the Group's structure	-	-	(228)	(95)	(34)	-	(357)
Exchange differences	(340)	(3,710)	(15,013)	(335)	(274)	-	(19,672)
Reclassification	-	-	(539)	539	-	-	-
Other	-	88	13,147	-	83	-	13,318
Accumulated depreciation at the end of the period	**(11,317)**	**(537,705)**	**(1,530,907)**	**(65,735)**	**(35,688)**	**-**	**(2,181,352)**
Impairment losses at the beginning of the period	**-**	**(1,744)**	**(787)**	**(1)**	**95**	**(4,544)**	**(6,981)**
Recognition	-	(179)	-	-	-	(1,263)	(1,442)
Reversal	-	580	-	-	-	-	580
Liquidation	-	-	-	-	-	4,524	4,524
Exchange differences	-	(52)	(23)	1	3	-	(71)
Impairment losses at the end of the period	**-**	**(1,395)**	**(810)**	**-**	**98**	**(1,283)**	**(3,390)**
Carrying amount of property, plant and equipment at the beginning of period	**68,760**	**672,025**	**1,570,381**	**48,415**	**14,542**	**338,129**	**2,712,252**
Carrying amount of property, plant and equipment at the end of the period	**70,847**	**718,988**	**1,600,158**	**49,649**	**18,385**	**399,172**	**2,857,199**

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01.01.-31.12.2017	Land	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	**84,579**	**1,083,972**	**2,717,796**	**101,559**	**46,304**	**340,585**	**4,374,795**
Purchase	318	2,018	37,778	5,321	2,740	364,413	412,588
Reclassification	-	84,903	228,583	200	5,673	(367,534)	(48,175)
Capitalised borrowing costs	-	-	-	-	-	10,593	10,593
Exchange differences	(5,160)	(15,740)	(61,221)	(1,315)	(730)	(4,696)	(88,862)
Sales	-	(295)	(382)	(167)	(32)	(616)	(1,492)
Liquidation	-	(659)	(4,899)	(143)	(7,902)	(77)	(13,680)
Other	-	4	2,008	2,097	2	5	4,116
Gross value of property, plant and equipment at the end of the period	**79,737**	**1,154,203**	**2,919,663**	**107,552**	**46,055**	**342,673**	**4,649,883**
Accumulated depreciation at the beginning of the period	**(10,855)**	**(438,511)**	**(1,207,530)**	**(53,934)**	**(34,372)**	**-**	**(1,745,202)**
Annual depreciation charge	(756)	(50,062)	(175,100)	(7,024)	(5,169)	-	(238,111)
Sales	-	295	382	154	32	-	863
Liquidation	-	374	4,400	141	7,899	-	12,814
Exchange differences	634	7,470	29,812	820	611	-	39,347
Reclassification	-	-	615	(6)	(609)	-	-
Other	-	-	(1,074)	713	-	-	(361)
Accumulated depreciation at the end of the period	**(10,977)**	**(480,434)**	**(1,348,495)**	**(59,136)**	**(31,608)**	**-**	**(1,930,650)**
Impairment losses at the beginning of the period	**-**	**(978)**	**(411)**	**-**	**-**	**(4,544)**	**(5,933)**
Recognition	-	(1,798)	(1,151)	(3)	(13)	-	(2,965)
Reversal	-	921	581	2	111	-	1,615
Liquidation	-	-	154	-	-	-	154
Exchange differences	-	111	40	-	(3)	-	148
Impairment losses at the end of the period	**-**	**(1,744)**	**(787)**	**(1)**	**95**	**(4,544)**	**(6,981)**
Carrying amount of property, plant and equipment at the beginning of period	**73,724**	**644,483**	**1,509,855**	**47,625**	**11,932**	**336,041**	**2,623,660**
Carrying amount of property, plant and equipment at the end of the period	**68,760**	**672,025**	**1,570,381**	**48,415**	**14,542**	**338,129**	**2,712,252**

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%.

In 2018 and 2017, there were no significant impairment allowances of property, plant and equipment.

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2018	01.01.-31.12.2017
Cost of sales	(257,344)	(230,656)
General and administrative expenses	(8,315)	(7,322)
Other operating expenses	(121)	(133)
TOTAL	**(265,780)**	**(238,111)**

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2018	31.12.2017
Owned	2,812,902	2,669,789
Finance lease agrements	44,297	42,463
TOTAL	**2,857,199**	**2,712,252**

In the reporting period the CIECH Group received compensation from third parties for impaired tangible fixed assets in the amount of PLN 1,421 thousand (PLN 1,830 thousand in the comparable period).

As at 31 December 2018, all tangible assets at CIECH S.A. were pledged as collateral for financial liabilities due to term loan, RCF loan and overdrafts.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 76,173 thousand in 2018 (in the comparable period: PLN 79,908 thousand).

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2018	31.12.2017
Used under lease, tenancy and other agreements including:	**127,357**	**133,612**
Land in perpetual usufruct	51,049	51,135
Operating lease agreement	4,678	6,372
Renting agreement	-	899
Tenancy agreement	71,630	75,206

CIECH S.A. is a lessee of office space. 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 note 7.5 to these statements. Another material item comprises leases of locomotives and carriages at CIECH Cargo Sp. z o.o.

5.2. RIGHT OF PERPETUAL USUFRUCT OF LAND

Accounting policy

Purchased rights of perpetual usufruct of land are recognised as separate items in the statement of financial position. Perpetual usufruct rights obtained based on an administrative decision are recorded off-balance sheet (recognised as operating lease). Rights of perpetual usufruct of land are depreciated on a straight-line basis over the lease term.

The carrying amount of the right of perpetual usufruct purchased by the CIECH Group is presented in the table below.

RIGHT OF PERPETUAL USUFRUCT OF LAND	01.01.-31.12.2018	01.01.-31.12.2017
Gross value at the beginning of the period	**39,250**	**38,977**
Purchase	-	273
Gross value at the end of the period	**39,250**	**39,250**
Amortisation at the beginning of the period	**(9,181)**	**(8,758)**
Amortisation for the period	(423)	(423)
Amortisation at the end of the period	**(9,604)**	**(9,181)**
Impairment losses at the beginning of the period	**-**	**-**
Impairment losses at the end of the period	**-**	**-**
Net value as at the beginning of the period	**30,069**	**30,219**
Net value as at the end of the period	**29,646**	**30,069**

5.3. INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on a combination of two separate entities or businesses into one reporting entity. It specifically relates to the acquisitions of subsidiaries, associates, or jointly controlled entities. All business combinations of unrelated entities are recognised using the acquisition method.

The Group initially measures goodwill as the difference between the total value:

- ✓ the acquisition-date fair value of the consideration transferred,
- ✓ the amount of any non-controlling interest in the acquiree measured either at fair value or at their proportionate share in the fair value of the acquiree's net assets, and
- ✓ in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquire

and the net recognised amounts (fair value) of the identifiable assets acquired and liabilities assumed measured at the acquisition date.

Occasionally, a bargain purchase may occur, i.e. a business combination in which the net recognised amounts of the identifiable assets acquired and liabilities assumed measured at the acquisition date exceed the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest measured at fair value or at their proportionate share in the acquiree's net assets, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified and measured the amounts of assets acquired and liabilities assumed, non-controlling interest, consideration transferred, and in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. The purpose of the reassessment is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date. Any remaining gain from a bargain purchase after completing the reassessment is recognised in profit or loss at the acquisition date (as other operating income).

At the date of an acquisition, any goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or a group of units to which the goodwill was allocated:

- ✓ is the lowest level within the Group at which goodwill is monitored for internal management purposes,
- ✓ is not larger than an operating segment as defined in IFRS 8 "Operating Segments".

Goodwill represents an asset with indefinite useful life and as such is subject to annual impairment tests. Goodwill is tested at a minimum at the operating segment level.

Goodwill related to investments in associates is reflected in their carrying amounts in the Group's consolidated financial statements. Consequently, any investments in associates and the related goodwill are analysed for impairment on a combined basis.

Other intangible assets

Other intangible assets that are acquired by the Group 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.

The costs of registering a substance in the REACH system, such as participation in research, consulting services linked to a specific registration, costs of preparing the registration documents and Chemical Safety Reports, registration fees and authorisation, are capitalised as intangible assets.

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 intangible assets are as follows:

Development costs	2-5 years
Patents and licences	2–10 years
Other	2-12 years

Amortisation periods and residual values are reviewed at each reporting date with any resulting adjustments made. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Amortisation of intangible assets related to the costs incurred in respect of registration in the REACH system begins in the month following the month of proper registration of a given substance. The amortisation period is 12 years with amortisation charged to cost of sales.

Costs of completed development activities

Research activities represent an innovative and scheduled search for solutions, undertaken with the prospect of gaining new scientific or technical knowledge. Development activities are understood as a practical application of discoveries or achievements of other knowledge in planning and designing the production of new or considerably improved materials, devices, products, technological processes, systems or services, taking place prior to starting mass production or prior to their application.

All expenditure on research activities is recognised in profit or loss as incurred. Whenever a clear distinction between research and development activities cannot be made, the Group treats the related expenditure as though it were incurred in the research phase only.

Development expenditure is capitalised as part of intangible assets only if the Group is able to prove:

- ✓ that the product or process is technically and commercially feasible (assessed from a technical perspective),
- ✓ its intent to complete development and to use or sell the asset,
- ✓ the ability to use or sell the asset,
- ✓ the manner in which the asset will bring future economic benefits (inter alia, the entity should prove the existence of a market for new products created by the asset or a market for the asset itself, or – if the asset is to be used by the Group – the usefulness of the intangible asset to the Group),
- ✓ the availability of appropriate technical, financial and other resources required to complete development activities and then use or sell the asset, and,
- ✓ its ability to reliably measure development costs attributable to the asset.

Internally generated trademarks, magazine titles, editorial titles, customer lists and other items of similar nature are not recognised in the financial statements.

The amortisation periods of capitalised development costs should reflect their estimated useful lives.

Judgements and estimates

Amortisation rates. 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.

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01.01.-31.12.2018	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**19,668**	**463,789**	**98,770**	**71,467**	**108,183**	**761,877**
Purchase	-	-	1,919	2,453	534	4,906
Investment outlays	-	-	-	127,905	-	127,905
Reclassifications	1,065	-	3,928	(61,383)	50,271	(6,119)
Exchange differences	-	13,337	(22)	20	2,899	16,234
Liquidation	-	-	(736)	-	(254)	(990)
Cancellation of CO_2 emission rights	-	-	-	-	(35,638)	(35,638)
Change in the Group's structure	-	77,970	128,145	-	1,747	207,862
Other	-	-	-	548	-	548
Gross value of intangible assets at the end of the period	**20,733**	**555,096**	**232,004**	**141,010**	**127,742**	**1,076,585**
Accumulated amortisation at the beginning of the period	(14,942)	-	(87,451)	-	(43,935)	**(146,328)**
Annual amortisation charge	(1,419)	-	(7,207)	-	(2,661)	(11,287)
Exchange differences	-	-	(98)	-	(1,277)	(1,375)
Change in the Group's structure	-	-	(120)	-	-	(120)
Liquidation	-	-	729	-	170	899
Other	349	-	(349)	-	-	-
Accumulated amortisation at the end of the period	**(16,012)**	**-**	**(94,496)**	**-**	**(47,703)**	**(158,211)**
Impairment losses at the beginning of the period	**-**	**(402,416)**	**(3,253)**	**-**	**(40,122)**	**(445,791)**
Recognition	-	-	-	(1,216)	-	(1,216)
Exchange differences	-	(11,967)	-	-	(1,242)	(13,209)
Impairment losses at the end of the period	**-**	**(414,383)**	**(3,253)**	**(1,216)**	**(41,364)**	**(460,216)**
Net value of intangible assets at the beginning of the period	**4,726**	**61,373**	**8,066**	**71,467**	**24,126**	**169,758**
Net value of intangible assets at the end of the period	**4,721**	**140,713**	**134,255**	**139,794**	**38,675**	**458,158**

01.01.-31.12.2017	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**17,541**	**492,065**	**95,605**	**26,570**	**114,410**	**746,191**
Purchase	-	-	936	950	14	1,900
Investment outlays	-	-	-	77,236	-	77,236
Reclassifications	2,127	-	2,394	(32,789)	27,318	(950)
Exchange differences	-	(28,276)	(179)	-	(5,405)	(33,860)
Sales	-	-	-	-	(6)	(6)
Liquidation	-	-	-	-	(306)	(306)
Cancellation of CO_2 emission rights	-	-	-	-	(31,160)	(31,160)
Other	-	-	14	(500)	3,318	2,832
Gross value of intangible assets at the end of the period	**19,668**	**463,789**	**98,770**	**71,467**	**108,183**	**761,877**
Accumulated amortisation at the beginning of the period	**(13,653)**	**-**	**(85,316)**	**-**	**(44,026)**	**(142,995)**
Annual amortisation charge	(1,289)	-	(2,278)	-	(2,287)	(5,854)
Exchange differences	-	-	146	-	2,373	2,519
Sales	-	-	-	-	5	5
Other	-	-	(3)	-	-	(3)

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01.01.-31.12.2017	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Accumulated amortisation at the end of the period	**(14,942)**	**-**	**(87,451)**	**-**	**(43,935)**	**(146,328)**
Impairment losses at the beginning of the period	**-**	**(427,885)**	**(3,365)**	**-**	**(42,557)**	**(473,807)**
Reversal	-	-	112	-	-	112
Exchange differences	-	25,469	-	-	2,435	27,904
Impairment losses at the end of the period	**-**	**(402,416)**	**(3,253)**	**-**	**(40,122)**	**(445,791)**
Net value of intangible assets at the beginning of the period	**3,888**	**64,180**	**6,924**	**26,570**	**27,827**	**129,389**
Net value of intangible assets at the end of the period	**4,726**	**61,373**	**8,066**	**71,467**	**24,126**	**169,758**

A significant increase in capital expenditure under "Other intangible assets" in 2018 was driven by expenditure related to the implementation of the SAP system in the CIECH Group.

Following the acquisition of Proplan Plant Protection Company, S.L. in July 2018, there was a significant increase in intangible assets due to the fair value measurement of assets acquired, including primarily registrations of crop protection chemicals.Proplan holds a portfolio of more than 120 product registrations and significant intellectual property assets. The total increase in intangible assets on this account is PLN 128,729 thousand. Moreover, this transaction resulted in the recognition of a goodwill, as described in Section 5.4 hereof.

An important component is also the client database in the SDC Group in the amount of PLN 4,932 thousand (recognised upon acquisition of the company). The valuation was executed in relation to the most significant clients of the production of CIECH Soda Deutschland GmbH & Co.KG, a member of the SDC Group – identified on the basis of an analysis of data for 2005-2007, who have a stable and long-term relationship with the company and will remain clients of CIECH Soda Deutschland GmbH & Co.KG also in the future. These are the relationships with the clients who are, to a large extent, dependent on CIECH Soda Deutschland GmbH & Co.KG as their main or secondary supplier of raw materials.

Other intangible assets of the CIECH Group include mainly IT systems, licences and patents, other software, development works and other intangible assets. All intangible assets belong to the CIECH Group.

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

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2018	01.01.-31.12.2017
Cost of sales	(2,027)	(2,285)
Selling costs	(7,633)	(2,166)
General and administrative expenses	(1,627)	(1,403)
TOTAL	**(11,287)**	**(5,854)**

As at 31 December 2018, all intangible assets at CIECH S.A. were pledged as a collateral for financial liabilities due to term loan, RCF loan and overdrafts.

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).

Apart from goodwill, the CIECH Group does not have other intangible assets with an indefinite useful life. Additional information about the goodwill is presented in note 5.4.

Development works

Development works carried out by the CIECH Group are aimed at increasing economic potential; and are related mainly to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters. The Group continues the development of the R&D area to support the development of products being a response to growing needs of the market.

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Internally generated intangible assets	01.01.-31.12.2018	01.01.-31.12.2017
Gross value as at the beginning of the period	59,882	36,415
Expenditure incurred	46,265	23,467
Gross value as at the end of the period	**106,147**	**59,882**
Accumulated amortisation – as at the beginning of the period	13,011	11,790
Amortisation for the period	1,448	1,221
Accumulated amortisation as at the end of the period	**14,459**	**13,011**
Net value as at the end of the period	**91,688**	**46,871**

5.4. GOODWILL IMPAIRMENT TESTING

In preparing the consolidated financial statements of the CIECH Group, the goodwill recognised in the consolidated financial statements in relation to a subsidiary CIECH Sarzyna S.A. and German SDC Group, as well as to the Spanish company Proplan Plant Protection Company S.L. acquired in July 2018, was tested for impairment. The recoverable amount was calculated based on the value in use. The value in use was calculated on the basis of the Group's five-year plans. In 2018, no impairment of goodwill was identified for any of the above entities.

Moreover, following the acquisition of 52.83% of shares in Smart Fluid Sp. z o.o. by CIECH R&D Sp. z o.o. in October 2018, a goodwill of PLN 2,953 thousand was recognised (this goodwill was not tested for impairment due to the short period between the acquisition of majority interests in the company and the balance sheet date).

The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for CIECH Sarzyna S.A. 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 the SDC Group for cash flows in EUR was 6.6%;
- the weighted average cost of capital for Proplan Plant Protection Company, S.L. for cash flows in EUR was 7.7%; for cash flows in USD was 9.9%;
- the assumed growth rate for the residual period was 2.0% for all companies.

According to the estimates of the Management Board for CIECH Sarzyna S.A., SDC Group and Proplan Plant Protection Company S.L., an increase in the weighted average cost of capital of 1 p.p. for each currency without changing other factors would not lead to any change in the carrying amount of goodwill.

Goodwill is the most valuable component of intangible fixed assets and is presented at the level of the CIECH Group and on the lower tier group level – the SDC Group. Goodwill presented in consolidated financial statements was recognised as a result accounting for business combinations in 2006 and 2007 and acquisition of companies in 2018. Goodwill presented in the consolidated financial statements as at 31 December 2018 amounted to PLN 140,713 thousand (soda segment – PLN 47,696 thousand, silicates and glass segment – PLN 39 thousand, organic segment – PLN 90,025, other segment – PLN 2,953 thousand).

As compared to 2017, goodwill increased by PLN 79,340 thousand as a result of:

- acquisition of Proplan Plant Protection Company, S.L. – by PLN 74,955 thousand. The goodwill on acquisition of Proplan was allocated to the following CGUs: Proplan Plant Protection Company, S.L. and CIECH Sarzyna S.A. The amounts allocated were as follows: PLN 57,620 thousand and PLN 17,335 thousand.
- acquisition of smart Fluid Sp. z o.o. – by PLN 2,953 thousand,
- change in the EUR exchange rate used to translate the goodwill recognised in the statements of the lower tier group, the SDC Group, in 2018 – by PLN 1,432 thousand.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

5.5. INVESTMENT PROPERTIES

Accounting policy

Investment property is held to earn rentals or for capital appreciation (or both). Investment property is remeasured at fair value. At initial recognition, investment property is accounted for in accordance with policies applicable for property, plant and equipment i.e. purchase price or cost. In subsequent reporting periods change in fair value of investment property is recognised in profit or loss in the period when change occurred and is presented in other operating expenses. Investment properties held under operating lease may be classified and accounted for as investment property if they meet the definition of investment property and the Group elects to do so.

Judgements and estimates

Investment property valuation. The CIECH Group presents investment property at fair value, recognising the fair value valuation in the statement of profit or loss. Investment property valuation is performed using:

- ✓ comparative method based on observable market data, including the price of comparable investment properties and adjusted with the specific factors such as the capability of the property, its location and condition, or
- ✓ income method (based on a discounted cash flow model) in the absence of comparable market data.

INVESTMENT PROPERTIES	01.01.-31.12.2018	01.01.-31.12.2017
Value at the beginning of period	**44,268**	**31,384**
Sales	(5,471)	-
Goodwill valuation	(1,040)	11,515
Other	9	1,369
Value at the end of the period	**37,766**	**44,268**

The item "Investment property" presented by the CIECH Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value. The fair value of an investment property is determined with comparative and income method by an independent appraiser.

As at 31 December 2018, the CIECH Group held the following investment property:

- CIECH Nieruchomości S.A. – As at 31 December 2018, the investment property line item for CIECH Nieruchomości S.A. included real property located in Bydgoszcz. The real property was acquired from Infrastruktura Kapuściska S.A in liquidation bankruptcy.
- CIECH Soda Polska S.A. – Buildings acquired by CIECH Soda Polska S.A. as a result of a merger with Soda Med. Sp. z o.o. These are buildings leased for medical outpatient, clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- CIECH Sarzyna S.A. – 35 buildings and structures located on the premises of CIECH Sarzyna S.A. In the past, they were used by the company for its own needs, currently they are leased to generate rental income.
- CIECH Trading S.A. – the company recognises land located in Bydgoszcz as investment property (acquired from Infrastruktura Kapuściska S.A. in liquidation bankruptcy).

	01.01.-31.12.2018	01.01.-31.12.2017
Income from investment property rental	1,648	2,139
Operating costs related to investment property generating rental income in the given period	1,358	2,334
Operating costs related to investment property not generating rental income in the given period	1,040	-

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

5.6. LONG-TERM RECEIVABLES

Accounting policy

Contract assets resulting from transactions that are within the scope of IFRS 15 – receivables in relation to caverns.

In the case when an entity (contractor) incurs costs due to future activity related with the execution of a contract, such costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

For these categories of assets, the Group chose a simplified approach to estimating impairment due to expected credit losses, whereby lifetime expected credit losses are always estimated from the moment of initial recognition of exposures, whether or not an evidence of a significant increase in credit risk exists.

LONG-TERM RECEIVABLES	31.12.2018	31.12.2017
Receivables in relation to caverns	64,517	81,552
Other	86	126
Net non-current receivables	**64,603**	**81,678**
Write-down on receivables	(1,441)	-
Gross non-current receivables	**66,044**	**81,678**

CHANGE IN IMPAIRMENT ALLOWANCES ON LONG-TERM RECEIVABLES	31.12.2018	31.12.2017
Opening balance	-	
Changes in accounting policies	(1,531)	-
Opening balance after adjustments	**(1,531)**	**-**
Reversed	137	-
Exchange differences	(47)	
Closing balance	**(1,441)**	**-**

As at 31 December 2017, in accordance with IAS 39, there were no grounds for recognising impairment losses on long-term receivables. As at 1 January 2018, according to IFRS 9, a default rate was determined for these receivables on the basis of the counterparty's rating and the long-term receivable payment schedule.

5.7. LONG-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

LONG-TERM FINANCIAL ASSETS	31.12.2018	31.12.2017
Shares	12,819	10,618
Derivatives	11,859	35,086
Embedded derivatives	4,007	8,576
Other	89	152
TOTAL	**28,774**	**54,432**

In 2018 and in the comparable period, there was no change in impairment write-downs on long-term financial assets. These write-downs amounted to PLN 1,343 thousand.

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5.8. SHARES IN JOINT VENTURES / INVESTMENTS IN ASSOCIATES

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control and have rights to the net assets of the arrangement.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted associates and joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Group also measures impairment of the share in the net assets of associates and joint ventures and creates appropriate allowance. When the Group's share of losses exceeds the carrying amount of its interest in an associate or a joint venture, such carrying amount is reduced to nil and the recognition of further losses is discontinued if the Group is not obliged to cover them.

The CIECH Group holds a 50% share in Kaverngesellschaft Stassfurt mbH. It is a jointly-controlled company measured under the equity method at the lower-tier group level – the SDC Group (50% direct share in Kaverngesellschaft Stassfurt mbH). This company is not listed on the stock market so the fair value of this investment is not available. Balance sheet days and reporting periods of Kaverngesellschaft Stassfurt mbH are the same as those adopted by the Group.

The following table presents the carrying amounts of investments in equity-accounted associates and jointly-controlled entities:

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2018	31.12.2017
Investments in associates and jointly-controlled entities	5,556	5,095
Share in net profit of associated entities measured under the equity method	516	225

The table below presents condensed information related to the investment in Kaverngesellschaft Stassfurt mbH:

Kaverngesellschaft Stassfurt mbH	31.12.2018	31.12.2017
Share in the equity	50.0%	50.0%
Non-current assets	512	229
Current assets	5,598	5,226
Equity	4,270	3,312
Short-term liabilities	1,840	2,143
Sales revenues	6,853	10,429
Profit before tax	1,600	675
Income tax	(572)	(212)
Net profit/loss	1,028	463

5.9. 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.

Finished goods and work in progress are measured at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, 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

The CIECH Group companies recognise 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	231,381	166,268
Semi-finished products and work in progress	48,672	23,339
Finished products	109,514	110,108
Goods	48,951	64,802
TOTAL	**438,518**	**364,517**

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**(37,987)**	**(38,218)**
Recognized	(10,136)	(7,542)
Reversed / released	7,794	6,922
Used	-	198
Exchange differences	(202)	653
Change in the Group's structure	(194)	-
Other	30	-
Closing balance	**(40,695)**	**(37,987)**

As at 31 December 2018, all inventories at CIECH S.A. were pledged as a collateral for financial liabilities due to term loan, RCF loan and overdrafts.

5.10. 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 Group companies use 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 approx. 90% of the value of advance payments received from the factor (the approx. 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 Group 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 Group 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%.

[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

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In addition, regardless of the foregoing, the Group 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;
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 receivables held in accordance with the business model the objective of which is to hold financial assets to collect their contractual cash flows, are classified as financial assets measured at fair value through profit or loss and, therefore, they are not subject to provisions concerning the impairment of financial assets.

TRADE AND OTHER RECEIVABLES	31.12.2018	31.12.2017
Trade receivables, including:	377,073	339,092
- up to 12 months	376,326	337,668
- over 12 months	22	-
- prepayments for inventory	725	1,424
Prepayments for non-current assets	3,834	3,522
Public and legal receivables (excluding income tax)	120,381	91,169
Receivables from sales of energy	5,306	9,343
Insurance receivables	684	798
Purchase costs	772	569
External services	1,421	1,099
Factoring receivables	59,045	47,256
Other receivables	26,647	16,976
NET TRADE AND OTHER RECEIVABLES	**595,163**	**509,824**
Impairment allowances with respect to trade receivables including	(38,357)	(28,919)
- impairment allowance recognized in the current reporting period	(6,537)	(1,712)
Impairment allowances with respect to other current receivables including	(20,634)	(15,694)
- impairment allowance recognized in the current reporting period	(4,530)	(15)
GROSS TRADE AND OTHER RECEIVABLES	**654,154**	**554,437**

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the maximum period of delay in payments. As at 31 December 2018,the asset from continuing involvement amounted to PLN 2,103 thousand (presented under other receivables). The value of receivables transferred to the factor and derecognised from trade receivables in the statement of financial position was PLN 291,779 thousand as at 31 December 2018 (as at 31 December 2017: PLN 340,535 thousand). Fair value of trade receivables and other receivables does not differ significantly from their carrying value.

Changes in gross value of trade receivables in the current reporting period are presented in the table below:

Trade receivables gross as at 01.01.2018	**366,587**
Created	3,493,880
Paid	(3,468,387)
Change in Group's composition	22,604
Trade receivables gross as at 31.12.2018	**414,685**

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CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**(44,613)**	**(57,938)**
Changes in accounting policies	(5,143)	
Opening balance after adjustments	**(49,756)**	**(57,938)**
Recognized	(11,067)	(1,727)
Reversed	3,327	11,503
Used	637	1,084
Exchange differences	(922)	2,629
Change in the Group's structure	(1,054)	-
Other	(156)	(164)
Closing balance	**(58,991)**	**(44,613)**

The principles for recognising impairment allowances for short-term receivables are described above, in the "Accounting Policy" section. Terms of transactions with related entities have been presented in note 9.3.

Commercial contracts concluded by the CIECH Group 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, all recewivables (long and short-term) at CIECH S.A. were pledged as a collateral for financial liabilities due to term loan, RCF loan and overdrafts.

5.11. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

SHORT-TERM FINANCIAL ASSETS	31.12.2018	31.12.2017
Derivatives	16,060	24,751
Embedded derivatives	11,972	7,141
Loans granted	1,800	26,087
Total (net) short-term financial assets	**29,832**	**57,979**
Impairment of short-term financial assets	(27,953)	(24,532)
Total (gross) short-term financial assets	**57,785**	**82,511**

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM FINANCIAL ASSETS	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**(24,532)**	**(24,601)**
Recognized	(3,421)	(841)
Reversed	-	910
Closing balance	**(27,953)**	**(24,532)**

5.12. 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 Group 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.

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

CASH AND CASH EQUIVALENTS	31.12.2018	31.12.2017
Bank accounts	171,924	321,326
Short-term deposits	10,758	168,396
Cash in hand	65	32
Other cash	9,534	-
Impairment of cash and cash equivalents	(142)	-
Cash and cash equivalents	**192,139**	**489,754**

CHANGE IN IMPAIRMENT CASH AND CASH EQUIVALENTS	31.12.2018	31.12.2017
Opening balance	-	-
Changes in accounting policies	(571)	-
Opening balance after adjustments	**(571)**	-
Recognized	(92)	-
Reversed	521	-
Closing balance	**(142)**	-

The value of restricted cash

As at 31 December 2018, all cash and cash equivalents in Polish companies (CIECH S.A.,CIECH Soda Polska S.A., CIECH Sarzyna S.A.), German companies (CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), and Romanian company CIECH Soda Romania S.A., who are guarantors of the term loan, were pledged as a collateral for financial liabilities due to term loan, RCF loan and overdrafts.

As at 31 December 2018, the balance of cash restricted due to a deposit placed for transactions concluded with the PGE Brokerage House (futures contracts for the purchase of CO_2 certificates) amounted to PLN 11,551 thousand (EUR 2,686 thousand) (as at 31 December 2017: PLN 7,503 thousand (EUR 1,799 thousand)).

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.

5.13. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND LIABILITIES CONNECTED WITH NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In the reporting periods presented, there were no discontinued operations at the CIECH Group.

Assets and liabilities classified as held for sale

Accounting policy

Non-current assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through a sale transaction and when they are available for sale in their current condition with such transaction being highly probable.

As at 31 December 2018 and 31 December 2017, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are included in the segment of silicates and glass;
- CIECH Transclean Sp. z o.o. presented a real property with the carrying amount of PLN 422 thousand (PLN 547 thousand as at 31 December 2017), located in Bydgoszcz, containing an administrative building together with equipment. These assets are presented in the "Other activities" segment.

In addition, CIECH Trading S.A. presented an EPI installation acquired from Infrastruktura Kapuściska S.A. in liquidation bankruptcy and a part of the catholyte installation (total carrying value of PLN 2,315 thousand) as non-current assets held for sale. These assets were presented in the "Other activities" segment and sold in 2018.

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6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

The capital structure of the Group consists of debt comprising the credit facility, cash and cash equivalents and equity attributable to shareholders of the parent, including shares issued, reserve capital and retained earnings.

The Group manages its capital in order to ensure that subsidiaries are able to continue their activity and at the same time maximise 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.

The Group monitors the effectiveness and stability of capitals using the debt ratio calculated based on the net debt value in relation to EBITDA. The consolidated net debt of the Group calculated as the sum of non-current and current liabilities for credits, loans and other debt instruments (finance lease + liabilities for net loss on derivatives calculated separately for each instrument + factoring liabilities) less cash.

EBITDA is calculated as operating profit plus amortisation and depreciation.

	31.12.2018	31.12.2017
Loans, borrowings and debt securities – bonds issued	1,632,666	1,329,919
Financial lease liabilities	23,540	24,888
Factoring liabilities	20,309	28,162
Net valuation of liabilities due to derivative instruments	17,392	43,459
Gross debt	**1,693,907**	**1,426,428**
Cash and cash equivalents	192,139	489,754
Net debt	**1,501,768**	**936,674**
EBIT	379,200	588,808
Amortization	275,203	244,388
EBITDA	**654,403**	**833,196**
Debt ratio	**2.3**	**1.1**

As at 31 December 2018, the value of the debt ratio was 2.3 and was higher than the ratio at the end of 2017 by 1.2. The deterioration of this ratio was due to lower cash flows from operating activities, expenses related to the purchase of the Proplan company and payment of dividends. The lower EBITDA also had a negative impact on the ratio.

6.2. CONSOLIDATED EQUITY

Accounting policy

The total consolidated shareholders' equity includes equity attributable to shareholders of the parent company and non-controlling interest.

The Group's share capital is represented by the share capital of the parent company and is accounted for at its nominal value adjusted by the effects of hyperinflation in the years 1989–1996.

Post-acquisition changes in the equity of subsidiaries are recognised in the Group's equity to the extent of the parent company's interest in those subsidiaries. The remaining equity of the consolidated entities is recognised in non-controlling interest, described below.

When a foreign operation is disposed of, the relevant amounts in the currency translation differences are transferred to profit or loss.

When shares are repurchased by the parent company or a consolidated subsidiary, 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.

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Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of consolidated subsidiaries and profit (loss) of non-controlling interest.

Non-controlling interest

Non-controlling interest represents interest in a subsidiary's equity which is not directly or indirectly attributable to the parent company.

Non-controlling interest is measured:

- ✓ at the amount of proportionate interest in subsidiary's net assets, or
- ✓ at fair value,

for each business combination separately at the time of initial recognition.

The carrying amount of non-controlling interest should correspond to the amount calculated by adding changes in the current period to the carrying amount of non-controlling interest at the end of the preceding period. These changes may result from:

- ✓ changes in the percentage share of interest held by non-controlling shareholders – e.g. purchase, sale, increase or decrease of share capital;
- ✓ changes in equity not related to the changes in the interest held – e.g. increase or decrease of equity with no effect on shareholding, additional equity contributions made by non-controlling shareholders, net result of the current year, transactions recognised directly in other comprehensive income, dividends paid.

Profit or loss as well as any component of other comprehensive income are attributable to the shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

As at 31 December 2018, the carrying amount of the share capital of the parent company CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment.

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.

Shareholder structure of CIECH S.A. as at the date of approval of the financial statements (according to the best knowledge of the Company)

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).*

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*** 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.

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
Other	2,322	2,322
TOTAL	**78,521**	**78,521**

Cash flow hedge reserve

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies.

Hedge cost reserve

The hedge cost reserve includes the time value of the gas purchase option which, in accordance with IFRS 9, has been left outside hedge accounting by the Group and the value of the basis currency spread for the CIRS transaction which was excluded from hedge accounting.

Currency translation differences (foreign companies)

The balance of this equity item is adjusted by exchange differences on the translation of the financial statements of foreign subsidiaries, i.e. CIECH Soda Romania S.A., SDC Group, Ciech Group Financing AB and Proplan Plant Protection Company, S.L. The balance of this item of equity also represents accumulated exchange differences on the measurement of net investments in a foreign entity and effective part of profit and losses from measurement of an instrument used for hedging shares in net assets of foreign companies.

Non-controlling interest

Profit or loss as well as any component of other comprehensive income are attributable to the equity of shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

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 NON-CONTROLLING INTEREST

Basis of consolidation

The subsidiaries' net equity in the amount as at the acquisition date, in the part corresponding to Group's share in the share capital, is compensated with acquisition value of the shares included in statement of financial position of the parent company at the date of acquisition. Consolidation adjustments, depending on their nature, are recorded against appropriate items of equity. Changes in the parent company's ownership interest that do not result in a loss of control of the subsidiary are accounted for as equity transactions.

Subsidiaries of the CIECH Group are fully consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date such control ends.

Balances, revenues and costs, unrealized profits or losses from transactions between the Group subsidiaries are eliminated in the process consolidation.

6.4.1. Acquisition of 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 determined in the share purchase agreement was set at EUR 44.5 million.

Proplan manufactures and sells generic crop protection products. It operates in the European market, mostly in Spain, and on other continents – mainly in Australia and Africa. In 2017, Proplan earned revenues of approximately EUR 16 million, with high operating profitability. Proplan holds a portfolio of more than 120 product registrations and significant intellectual property assets. Owing to this acquisition, CIECH S.A. has gained access to new sales markets where Proplan operates, and has acquired a portfolio of active substances and 120 product registrations.

Potential synergies from the acquisition of Proplan by CIECH S.A. include mutual exchange of portfolios of products available in their home markets and access to R&D infrastructure.

The above are the key factors comprising the goodwill recognised as a result of this transaction.

Proplan's revenue since the acquisition date, included in the consolidated statement of comprehensive income for the reporting period, amounts to PLN 34,639 thousand, and Proplan's net profit amounts to PLN 3,392 thousand.

If the transaction was executed as at 1 January 2018, the Management Board estimates that the consolidated revenue of the CIECH Group would amount to PLN 3,716,235 thousand, and the consolidated net profit for the period – to PLN 188,036 thousand.

The Group incurred costs related to the transaction, mainly legal costs and due diligence costs. The costs related to the transaction were recognized in the current period's profit or loss.

Consideration transferred

The Group determined the consideration transferred in settlement of the Proplan's acquisition, qualifying the following elements as consideration transferred:

- 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 (estimation of nominal payments at the moment of acquisition is EUR 4,270 thousand).

The total amount of the consideration transferred included in the purchase settlement is EUR 47,373 thousand (PLN 203,866 thousand).

EUR 3,706 thousand of discounted conditional payment as at the acquisition date relates to the compensation for former owners of Proplan. The compensation is in the form of a "bonus" that depends on the increase in the company's EBITDA in 2018-2019. In the Group's opinion, this consideration refers to the value of Proplan that was acquired by the Group (taking into account the specific nature of the crop protection products market), therefore, this amount was included in the consideration transferred.

Fair value of receivables acquired

The gross value of contractual receivables amounted to EUR 3,901 thousand (PLN 16,746 thousand). It was estimated that an inflow of receivables in the amount of EUR 245 thousand (PLN 1,052 thousand) is not expected.

Receivables comprised mainly trade receivables (EUR 3,504 thousand or PLN 15,042 thousand), while other receivables comprised mainly public law receivables and other prepayments and accrued income.

Fair value of acquired assets and liabilities

The following table presents the estimation of the fair values of the acquired net assets of Proplan divided into main categories.

ASSETS	Fair value as at 26.07.2018 (in thousands of EUR)
Non-current assets	
Intangible assets	30,155
Property, plant and equipment	79
Non-current receivables	19
Current assets	
Inventory	5,348
Trade and other receivables	3,656
Cash and cash equivalents	2,956
Total assets	**42,213**
LIABILITIES	
Non-current liabilities	
Loans, borrowings and other debt instruments	2,088
Deferred income tax liability	6,072
Current liabilities	
Loans, borrowings and other debt instruments	2,035
Trade and other liabilities	1,806
Other provisions	92
Total liabilities	**12,093**
NET ASSETS	**30,120**

Goodwill

Based on the above arrangements regarding consideration transferred and fair values of the acquired net assets, the goodwill was determined as follows:

Calculation of goodwill		Value (in EUR ‘000)
Acquisition price, including:	+	47,373
- consideration transferred		*40,053*
- deferred payments		*7,320*
Net value of Proplan’s assets and liabilities	-	30,120
Goodwill		**17,253**
EUR exchange rate as at the day preceding the transaction day, i.e. 25 July 2018		*4.3035*
Goodwill (in PLN ‘000)		**74,248**

Goodwill was recognised in the consolidated statement of financial position under intangible assets. As expected, the goodwill will not be deductible for tax purposes.

The above accounting was preceded by the process of allocation of the acquisition price carried out by the Company together with a complete analysis of Proplan's net assets, including in particular the fair value measurement of identified intangible assets, such as trademarks and registrations of crop protection products. As a result of allocation of the acquisition price, fair value adjustments were recognised, reducing the net value of Proplan’s assets by EUR 18,217 thousand (PLN 78,200 thousand). In the Group’s opinion, the above accounting is final.

6.4.2. Other ownership changes at the CIECH Group

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) Increased shareholding in companies

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

In 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.

- **Beta Cerium sp. z o.o.**

On 30 October 2018, the Extraordinary Shareholders' Meeting of Beta Cerium Sp. z o.o. adopted resolutions approving the sale of shares in the Company to its shareholder, CIECH Soda Polska S.A., by the remaining shareholders, i.e.:

- ✓ by CIECH Sarzyna S.A. – 800 shares in Beta Cerium Sp. z o.o.,
- ✓ by CIECH Pianki Sp. z o.o. – 79,103 shares in Beta Cerium Sp. z o.o.,
- ✓ by Cerium Sp. z o.o. – 1 share in Beta Cerium Sp. z o.o.

On 30 October 2018, following the aforementioned decision of the Extraordinary Shareholders' Meeting of Beta Cerium Sp. z o.o., CIECH Soda Polska S.A. concluded relevant agreements on the sale of shares in Beta Cerium Sp. z o.o. with CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o. and Cerium Sp. z o.o. The transfer of rights and obligations arising from the shares sold was effected at the time of signing the agreements and as of that moment all rights and obligations relating to the shares acquired by CIECH Soda Polska S.A. were transferred to CIECH S.A., i.e. as of 30 October 2018. As a result of the above operations, CIECH Soda Polska S.A. – whose previous share in the share capital of Beta Cerium Sp. z o.o. was 51.25% – became the sole shareholder of Beta Cerium Sp. z o.o.

3) merger of companies

The merger plan concerning the merger of CIECH Soda Polska S.A. with Beta Cerium sp. z o.o. and Cerium Finance Sp. z o.o. was adopted on 31 October 2018. In accordance with the Merger Plan, the merger of the companies was effected through the transfer of all assets of the Acquirees (Beta Cerium Sp. z o.o. and Cerium Finance Sp. z o.o.) to the Acquirer (CIECH Soda Polska S.A.) without increasing the share capital of the Acquirer due to the fact that the Acquirer was the sole partner of the Acquirees. As a result of the merger, the Acquirees ceased to exist.

4) 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.

5) acquisition of shares in new companies

- **Smart Fluid Sp. z o.o.**

On 12 January 2018, CIECH R&D sp. z o.o. became a shareholder of Smart Fluid Sp. z o.o. by acquiring 12 shares with a nominal value of PLN 50 per share, in exchange for a total contribution of PLN 120 thousand. Subsequently, on 1 October 2018 CIECH R&D Sp. z o.o. acquired 100 shares in Smart Fluid Sp. z o.o. with a nominal value of PLN 50 per share, in exchange for a total contribution of PLN 5,700 thousand. Thus, as at 31 December 2018 CIECH R&D Sp. z o.o.'s share in the share capital of Smart Fluid Sp. z o.o. stood at 52.83%. CIECH R&D Sp. z o.o. has the right to purchase further shares by 31 October 2019, and the cost of measurement of the purchase option as at the balance sheet date is close to zero.

- **Insignes Labs Sp. z o.o.**

On 23 November 2018, CIECH R&D Sp. z o.o. became a shareholder of Insignes Labs Sp. z o.o. by acquiring 59 shares with a nominal value of PLN 100 per share, in exchange for a total contribution of PLN 2,200 thousand. Thus, as at 31 December 2018 CIECH R&D Sp. z o.o.'s share in the share capital of Insignes Labs Sp. z o.o. stood at 22.78%.

6.5. SIGNIFICANT SUBSIDIARIES WITH NON-CONTROLLING INTEREST

In 2018 nad 2017, there was no significant non-controlling interest in any of the significant subsidiaries of the CIECH Group.

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6.6. EARNINGS PER SHARE

Accounting policy

Basic earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

The table below presents profit and shares data used in the calculation of the basic and diluted earnings per share:

In PLNł	01.01.-31.12.2018	01.01.-31.12.2017
Basic and diluted earnings per share (continuing operations)	3.47	7.47
Basic and diluted earnings per share (discontinuing operations)	-	-

	01.01.-31.12.2018	01.01.-31.12.2017
Net profit (loss) from continuing operations attributable to the shareholders of the parent	183,032	393,413
Net profit (loss) from discontinued operations attributable to the shareholders of the parent	-	-
Weighted average number of issued ordinary shares used in calculation of basic and diluted earnings per share	52,699,909	52,699,909

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7 LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

Accounting policy

Financial liabilities are an entity's liabilities to deliver financial assets to another entity or to exchange a financial instrument with another entity under conditions that are unfavourable. When a financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Interest accrued is recognised under finance costs or, if it is subject to capitalisation, to property, plant and equipment or intangible assets.

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2018	31.12.2017
LONG-TERM	**1,340,742**	**1,130,482**
Loans and borrowings	1,340,742	1,130,482
SHORT-TERM	**291,924**	**199,437**
Loans and borrowings	291,924	199,437
TOTAL	**1,632,666**	**1,329,919**

The change in liabilities due to credit taken by the companies of the CIECH Group is presented in the table below:

	31.12.2018	31.12.2017
Opening balance	**1,329,919**	**1,345,993**
Credits received	599,072	-
Interest	37,623	42,724
Repayment of liability, including:	(356,936)	(43,778)
Repayment of principal	*(319,515)*	*8*
Interest paid	*(37,421)*	*(43,786)*
Exchange differences realized	7,208	10
Exchange differences from valuation of liability	2,011	(17,644)
Change in Group composition	15,471	-
Other	(1,702)	2,614
Closing balance	**1,632,666**	**1,329,919**

Debt financing of the Group

The Group's debt financing is secured mainly through loans made available to CIECH S.A. under:

1. the Facilities Agreement dated 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. overdrafts, with a limit of up to PLN 100,000 thousand and EUR 10,000 thousand on the basis of contracts dated 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. in 2018, in section 4.6.

Interest rate:

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 to EBITDA as at the end of 2018, the loan margin will increase to 1.5%.

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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

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2018	31.12.2017
Subsidies	42,260	47,796
PUT options	8,600	8,342
Derivatives	38,181	41,528
Liabilities from the initial recognition of the valuation of embedded derivatives	1,296	5,618
Liabilities due to the purchase of shares and other financial assets	21,235	-
Other	1,059	283
TOTAL	**112,631**	**103,567**

Liabilities due to purchase of shares consist of the long-term part of the deferred payment for the purchase of Proplan Plant Protection Company, S.L. - more information in note 6.4.1.

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.

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.

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	447,871	387,331
- in up to 12 months	441,225	380,404
- above 12 months	14	-

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CURRENT TRADE AND OTHER LIABILITIES	31.12.2018	31.12.2017
- prepayments received for supplies	6,632	6,927
Public and legal liabilities (excluding income tax)	30,296	23,737
Liabilities for purchase of property, plant and equipment	32,068	79,624
Financial instruments liabilities	6,587	2,141
Liabilities to employees	13,943	13,686
Payroll liabilities	7,785	27,878
Holiday leave accrual	8,088	8,200
Taxes and charges	47,159	53,486
Materials and energy consumption	50,949	22,019
Subsidies	32,588	34,808
External services	1,669	3,752
Environmental charges	17,108	28,549
Social security and other employee benefits	1,433	2,746
Factoring liabilites	20,309	28,162
Liabilities from the initial recognition of the valuation of embedded derivatives	4,494	5,184
Liabilities due to the purchase of shares and other financial assets	11,419	-
Other	27,701	37,278
TOTAL	**761,467**	**758,581**

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

Trade liabilities do not bear interest. Commercial contracts concluded by the CIECH Group 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. FINANCE LEASE

Accounting policy

Accounting policy concerning finance leases is described in note 5.1.

The CIECH Group uses property, plant and equipment (mainly means of transport and various types of machinery and equipment) pursuant to finance lease agreements. The agreements include the return option, extension of the agreement or the option to buy all or a part of the equipment after the lease period. As at 31 December 2018, the carrying amount of leased property, plant and equipment amounted to PLN 44,297 thousand (as at 31 December 2017, it amounted to PLN 42,463 thousand). There were no contingent lease charges.

In 2015, 2016 and 2018, CIECH Cargo Sp. z o.o. signed finance lease agreements, under which the Company uses additional wagons to carry coal fines and stones. In the agreements, purchase options are provided for after the end of lease. As at 31 December 2018, the carrying value of property, plant and equipment covered by these agreements amounted to PLN 28,585 thousand (PLN 24,957 thousand as at 31 December 2017).

The nominal value and the present value of minimum lease payments are as follows:

FINANCE LEASE LIABILITIES	Nominal value of minimum lease payments	Future financial costs due to finance lease	Present value of minimum lease payments
31.12.2018			
Up to 1 year	6,422	505	5,917
Between 1 and 5 years	18,038	1,037	17,001
Over 5 years	624	2	622
TOTAL	**25,084**	**1,544**	**23,540**
31.12.2017			
Up to 1 year	5,261	518	4,743
Between 1 and 5 years	15,638	1,282	14,356
Over 5 years	5,870	81	5,789
TOTAL	**26,769**	**1,881**	**24,888**

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7.5. OPERATING LEASES

Accounting policy

A financial lease is 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 Group 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.

The largest item subject to operating lease in the CIECH Group, in accordance with the adopted accounting principles, is the right of perpetual usufruct of land obtained by administrative decision. Furthermore, the SDC Group recognises a long-term sewage system agreement effective until 2095 as an operating lease. Group companies also recognise lease agreements of property and low-value property, plant and equipment, e.g. coffee makers. Operating lease is a renewable lease, making it possible to acquire an asset at its estimated market value at the end of its use. The companies are not obliged to purchase the leased assets. No conditions for extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in relation to land revaluation.

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	19,209	20,343
Between 1 and 5 years	57,310	55,547
Over 5 years	168,534	157,975
TOTAL	**245,053**	**233,865**

In 2018, the costs of lease payments amounted to PLN 24,362 thousand (PLN 22,507 thousand in the comparable period).

7.6. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Jubilee awards, retirement benefits pays and disability pay:

Based on the Group's remuneration plan, the employees of its companies are entitled to long-term jubilee awards and to retirement benefits. The Group'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 Group'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;

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- ✓ 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	**10,789**	**10,752**	**968**	**1,194**
Recognition	1,403	663	511	708
Use and reversal	(392)	(1,048)	(789)	(1,028)
Foreign exchange differences	139	(308)	-	-
Other	(88)	730	187	94
Closing balance	**11,851**	**10,789**	**877**	**968**

In 2018, a change in provision in the amount of PLN -235 thousand was recognised in equity (PLN -834 thousand in the comparable period).

Employee benefits are measured on the basis of actuarial valuations. 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% was applied. The remuneration growth rate of 1% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Group estimations, a change in actuarial assumptions will not have a significant impact on financial results.

7.7. OTHER PROVISIONS

Accounting policy

A provision is recognised if, as a result of a past event, the Group 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.

Provision for environmental protection

In accordance with the Group's published and currently enforced environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised. The provision is recognised in the amount of the expected future restoration costs discounted to present value.

Judgements and estimates

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

CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities (costs)	Provision for environmental protection	Provision for expected losses	TOTAL
01.01.-31.12.2018				
Opening balance	**1,047**	**70,765**	**-**	**71,812**
Recognition	-	228	-	228
Use and reversal	-	(2,686)	(4,261)	(6,947)
Foreign exchange differences	-	1,898	-	1,898
Change in discount rate	-	6,016	-	6,016
Other	-	(427)	6,500	6,073
Closing balance	**1,047**	**75,794**	**2,239**	**79,080**

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CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities (costs)	Provision for environmental protection	Provision for expected losses	TOTAL
01.01.-31.12.2017				
Opening balance	6,547	77,737	-	84,284
Recognition	-	50	-	50
Use and reversal	(5,500)	(100)	-	(5,600)
Foreign exchange differences	-	(3,775)	-	(3,775)
Change in discount rate	-	(2,539)	-	(2,539)
Other	-	(608)	-	(608)
Closing balance	**1,047**	**70,765**	**-**	**71,812**

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for restructuring	Provision for compensation	Provision for liabilities (costs)	Provision for environmental protection	Provision for bonuses	Provision for expected losses	Other provisions	TOTAL
01.01.-31.12.2018								
Opening balance	**-**	**5,138**	**22,376**	**951**	**610**	**48,793**	**28**	**77,896**
Recognition	-	876	71,909	2,311	-	90	-	75,186
Use and reversal	-	(204)	(6,017)	(1,377)	(1,136)	(6,929)	(28)	(15,691)
Foreign exchange differences	-	-	416	-	2	345	-	763
Reclassification from (to) long-term provisions	-	-	-	-	-	(6,500)	-	(6,500)
Other	218	-	(12,449)	426	524	-	-	(11,281)
Closing balance	**218**	**5,810**	**76,235**	**2,311**	**-**	**35,799**	**-**	**120,373**
01.01.-31.12.2017								
Opening balance	-	9,337	26,598	2,391	3,661	46,507	292	88,786
Recognition	-	884	2,686	-	1,447	2,998	-	8,015
Use and reversal	-	(5,083)	(5,730)	(2,048)	(4,343)	-	(264)	(17,468)
Foreign exchange differences	-	-	(1,178)	-	(155)	(712)	-	(2,045)
Other	-	-	-	608	-	-	-	608
Closing balance	**-**	**5,138**	**22,376**	**951**	**610**	**48,793**	**28**	**77,896**

The most significant provisions of the CIECH Group are:

Provisions for expected losses and liabilities

CIECH S.A. – short-term provision for expected losses and provision for liabilities in the total amount of PLN 103,284 thousand, related to potential claims (principal liability plus interest liabilities and litigation costs) resulting from litigation. An important item is the provision for potential tax liability and default interest, respectively, in the amount of PLN 43,700 thousand and PLN 23,511 thousand.

SDC Group – short-term provision of PLN 6,321 thousand (EUR 1,470 thousand) related to negative valuation of a contract between the SDC Group and EVZA, concerning supply of technological steam and electricity.

CIECH Cargo Sp. z o.o. – due to a damage to a leased locomotive, railway infrastructure, traction network and damage to property and load, a provision in the amount of PLN 3,076 thousand was recognised in connection with the repair of these damages and payment of contractual penalties.

CIECH Soda Polska S.A. – long-term provision in the amount of PLN 1,047 thousand for potential environmental fees resulting from exceeded emission limits. In addition, provisions of PLN 2,658 thousand, related to customers' claims in connection with defective deliveries of products and the resulting losses, were recognised.

Provisions for environmental protection

SDC Group – long-term provision for environmental protection in the amount of PLN 66,796 thousand (EUR 15,534 thousand) comprising, among others, reclamation of rainwater ponds in Unseburg, mine reclamation activities in the limestone, reclamation of remains of the old limestone outcrops and closing of caverns.

CIECH Soda Polska S.A. – provision for land reclamation costs, calculated in accordance with expenditure planned until 2042, in line with the expected inflation rate: 2.5% adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The annual expenditure arising therefrom will amount to approx. PLN 850 thousand until 2042. The amount of the respective provision recognised in the statements amounts to PLN 8,862 thousand;

CIECH Sarzyna S.A. – provision for water and land reclamation costs in the amount of PLN 2,250 thousand, comprising a long-term provision of PLN 1,250 thousand and short-term provision of PLN 1,000 thousand. The provision was estimated based on a technical and financial project including a schedule of works for the years 2008-2020 of expenses to be incurred and the Marshal of Podkarpackie Province decision, discounted for a 1.5% inflation rate.

8 FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT AND IMPAIRMENT

8.1. FINANCIAL INSTRUMENTS

Accounting policy

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 Group 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 Group 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 Group 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 Group as having low credit risk.

The Group 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 Group 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 Group considers that there has been an impairment loss in the event of a delay in payment of more than 180 days.

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.

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 Group analyses recoveries using probability-weighted scenarios.

Trade receivables and contract assets arising from transactions within the scope of IFRS 15 are exceptions to this rule. For these categories of assets, the Group may choose a simplified approach whereby write-downs are estimated over the lifetime horizon - right from the initial recognition of exposures.

Impairment of financial assets according to previously applied accounting standards: IAS 39

Impairment of financial assets

At each reporting date the Group 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 valued 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. The amount of allowance decreases the carrying amount of financial asset and is recognised in profit or loss.

The Group 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 Group 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 Board considers highly probable of execution.

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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 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.

Embedded derivatives

Agreements with an embedded derivative are agreements containing conditions causing that a part of cash flows due to the agreement changes similarly to cash flows arising from independent derivatives. Embedded derivatives are subject to exclusion from a compound instrument and to separate measurement at fair value if all the following conditions are satisfied:

- ✓ the economic characteristics and risk of the embedded derivative are nor closely related to the economic characteristics and risk of the host contract,
- ✓ a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- ✓ it is possible to reliably establish the fair value of an embedded derivative,
- ✓ the hybrid (combined) instrument is not valued and recognised at fair value in financial statements.

The FIFO (first in – first out) method is applied to establish the costs due to the outflow of financial instruments.

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

Financial assets:

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

Financial liabilities:

- term loan liabilities, revolving loan liabilities and overdraft liabilities,
- trade liabilities and factoring liabilities,
- finance lease agreements,
- financial instruments with negative valuation.

Carrying amount of financial instruments

Classes of financial instruments	note	31.12.2018	31.12.2017	Categories of financial instruments
Cash and cash equivalents	*5.12*	192,139	489,754	Financial assets at amortised cost
Loans granted	*5.11*	1,800	26,087	Financial assets at amortised cost
Trade receivables	*5.10*	376,348	337,668	Financial assets at amortised cost
Factoring receivables	*5.10*	59,045	47,256	Financial assets at amortised cost
Hedging derivatives with positive value	*5.7;5.11*	27,807	59,837	Hedging instruments
Futures contracts	*5.7;5.11*	112	-	Financial assets valued at fair value thru profit or loss account
Embedded instruments with positive value	*5.7;5.11*	15,979	15,717	Hedging instruments
ASSETS		**673,230**	**976,319**	

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2018 (in PLN '000)

Classes of financial instruments	note	31.12.2018	31.12.2017	Categories of financial instruments
Trade liabilities	7.3	(441,239)	(380,404)	Financial liabilities at amortised cost
Loans and borrowings	7.1	(1,632,666)	(1,329,919)	Financial liabilities at amortised cost
Factoring liabilities	7.3	(20,309)	(28,162)	Financial liabilities at amortised cost
Financial lease liabilities	7.4	(23,540)	(24,888)	Financial liabilities excluded from IFRS 9
Hedging derivatives with negative value	7.2;7.3	(44,768)	(43,669)	Hedging instruments
LIABILITIES		**(2,162,522)**	**(1,807,042)**	

In the CIECH Group selected trade receivables 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.

Revenues, costs, profit and loss recognised in the statement of profit or loss	01.01.-31.12.2018	01.01.-31.12.2017	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	**(62 183)**	**(39 767)**	
	4 472	3 661	*Financial assets at amortised cost*
	(65 963)	(42 578)	*Financial liabilities at amortised cost*
	(692)	(850)	*Financial liabilities excluded from IFRS 9*
Foreign exchange gains/(losses)	**6 199**	**(32 603)**	
	6 241	-	*Financial assets at amortised cost*
	-	(32 697)	*Financial liabilities at amortised cost*
	(42)	94	*Financial liabilities excluded from IFRS 9*
Recognition of impairment losses	**(7 795)**	**(1 509)**	*Financial assets at amortised cost*
Reversal of impairment losses	**4 005**	**11 503**	*Financial assets at amortised cost*
Income / costs on account of use of derivatives	**21 934**	**30 983**	
	(2 242)	(317)	*Financial assets/liabilities at fair value through profit or loss*
	24 176	31 300	*Hedging instruments*
Gain / (loss) on the disposal of financial instruments	**2 758**	**(653)**	*Financial assets/liabilities at fair value through profit or loss*
TOTAL	**(35 082)**	**(32 046)**	

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 Group 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):
  - 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.

Hedges of a net investment in a foreign operation

Hedges of a net investments in a foreign operation shall be accounted for as follows:

- ✓ It is a hedge of a net investment in foreign operations with functional currency different than the one of the parent entity, by foreign currency liabilities.
- ✓ revaluation of foreign currency liabilities designated for hedge accounting is recognised in other comprehensive income and offset with the opposite revaluation of net investments in foreign operation in consolidated financial statements.

Accumulated amount in other comprehensive income is transferred to the profit or loss statement in the case of partial or overall sale of shares in a foreign entity.

Cash flow hedge according to previously applied accounting standards: IAS 39

A hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and that (ii) could affect profit or loss.

Cash flow hedge shall be accounted for as follows:

- ✓ the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income and presented in equity; the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.
- ✓ if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income (effective hedge) shall be reclassified from other comprehensive income to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.
- ✓ for cash flow hedges other than those covered above, amounts that had been recognised in other comprehensive income shall be reclassified from equity (effective hedge) to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

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

Hedging instrument	Hedged item	Nominal value/ Volume	Maturity date	31.12.2018		31.12.2017	
Derivatives - Cash flow hedge				Asset	Liability	Asset	Liability
Currency risk and interest rate risk							
CIRS transaction	Interest and equity payments for the term loan drawn by CIECH S.A. with an initial value PLN 1 045 thousand PLN	PLN 889 008 thousand	2020	27,376	(42,947)	53,530	(41,712)
Currency risk							
Currency forwards EUR/PLN	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	EUR 78,784 thousand	2019	543	(218)	4,668	-
Currency forwards USD/RON	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	USD 31,800 thousand	2019	-	(848)	1,429	-
Interest rate risk							
Swap of EURIBOR 6M to fixed interest rate	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of EUR 30,000 thousand	EUR 25,521 thousand	2020	-	(756)	210	(1,956)
Raw material price risk							
Futures contracts for the purchase of CO_2 units	Cost of purchase of CO_2 units in 2017 and 2018	812,000 EUA	2019	22,756	-	11,458	-
Acquired call options embedded in a gas supply contract	Cost of gas purchased in the period 2016–2020	687,5 GWH	2020	15,978	-	15,717	-
Net investment hedge							
Currency risk							
Bond liabilities	The hedged position is the net investment in the subordinated entity	EUR 69,697 thousand	Upon the sale of shares	-	-	-	-
Term loan liabilities	The hedged position is the net investment in the subordinated entity	EUR 30,000 thousand	Upon the sale of shares	-	(129,000)	-	(290,599)

Amounts recognised in the cash flow hedge reserve are presented below:

	01.01.-31.12.2018	01.01.-31.12.2017
Opening balance	**10,021**	**(45,306)**
IFRS 9 adjustment	2,408	-
Adjusted opening balance	**12,429**	**(45,306)**
Change in the fair value of the hedging instrument recognized in other comprehensive income	(7,971)	80,207
Income tax from the effective part	2,334	(16,004)
Transfer to financial result	(2,386)	(12,268)
Income tax	841	2,105
Ineffectiveness of hedge	(2,132)	1,287
Closing balance	**3,115**	**10,021**

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements, exchange rates differences due to incurred liabilities, (e.g. loans, bonds) and the impact of changes in raw material prices (gas, CO_2 certificates) on the statement of profit or loss by reflecting their hedging nature in the financial statements.

The result of the settlement of the effective portion of hedging instruments is reclassified from equity to the statement of profit or loss upon the realisation of the hedged item and recognition of its effect in the statement of profit or loss.

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.

Other relationships (not listed in the table above) were cancelled and settled in the previous reporting period in connection with the occurrence of the hedged position.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Group's long-term financial forecast. Additionally, to a large extent, these transactions are concluded with regular customers of the Group Companies, which supports the probability of their occurrence. The effect of the cash flow hedge accounting and the net investment hedges in foreign entities was presented in the consolidated statement of other comprehensive income of the CIECH Group.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

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

The CIECH Group'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, 2017 and 2016, the following transactions were applied: forward transactions hedging currency risk (forward transactions, CIRS), and interest rate risk (IRS and CIRS transactions), transactions hedging the price risk of CO_2 emission rights (forward, futures), transactions hedging the risk of gas prices (forwards, embedded options) and transactions hedging the risk of selling electricity prices (forward).

Cash management

The CIECH Group cooperates with bank service providers of high credit rating and with substantial experience in the cash management area. Allocation of financial resources to the Group companies 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

The CIECH Group 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, the Group 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 CIECH Group debt. When assessing risk, the Group takes into account the risk portfolio effect resulting from the variety of conducted business activities. Risk effects are materialised in the cash flow statement, statement of financial position and the statement of profit or loss.

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. The Group monitors risk areas which are most important for its activities.

Interest rate risk

The Group finances its activity mainly through term loans and bonds. The amount of the costs of interest-bearing debt held by the Group 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 million), overdraft facilities (as at the end of 2018, the debt amounted to PLN 32 783 thousand) and a part of lease and factoring contracts.

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Therefore, the Group 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 CIECH Group financial result. The risk is partially reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions.

In 2018, the CIECH Group 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.

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

Total carrying amount	31.12.2018	31.12.2017
Floating interest rate instruments	**(1,464,067)**	**(865,052)**
Interest rate swap transactions*	192,139	489,754
Cash flows sensitivity (net)	1,656,206	1,354,806

**including EUR 30 million hedged by IRS, PLN 1,045 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS.*

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	(14,641)	14,641	-	-
Interest rate swap transactions*	-	-	11,704	(12,093)
Cash flows sensitivity (net)	**(14,641)**	**14,641**	**11,704**	**(12,093)**
31.12.2017				
Floating interest rate instruments	(8,651)	8,651	-	-
Interest rate swap transactions*	-	-	29,349	(30,594)
Cash flows sensitivity (net)	**(8,651)**	**8,651**	**29,349**	**(30,594)**

** 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, the CIECH Group is subject to currency exposure related to the significant lead of export over import, the value of exposure is also affected by investment projects implemented in currencies and the structure of external financing. Sources of currency risk which exposed companies within the Group in 2018 includes: sales of products, purchase (raw materials, investment projects expenditures), loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the CIECH Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. The SDC Group and Proplan were excluded from the analysis since theirs functional currency is EUR and all reported operating cash flows of these companies are performed in this currency.

In 2018, the CIECH Group used hedging contracts, such as forward options, to partially cover currency risk. The CIECH Group 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.

The table below presents the estimated currency exposure of the CIECH Group in EUR (excluding figures concerning the SDC Group and Proplan Plant Protection Company, S.L.) and in USD as at 31 December 2018 and 2017 due to financial instruments:

Exposure to currency risk in EUR ('000)	31.12.2018	31.12.2017	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	83,400	61,191	x	
Trade and other receivables	25,323	23,181	x	
Cash including bank deposits	12,676	21,003	x	
Liabilities				
Trade and other liabilities	(20,751)	(18,780)	x	
Term loan liabilities	(30,000)	(69,673)		x
Other loan liabilities	(7,646)	-	x	
Hedging instruments: Forward	(78,784)	(23,600)		x
Forward (not designated to hedge accounting)	(25,000)	-	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(209,764)	(246,665)		x
Total exposure	**(250,546)**	**(253,343)**		

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

Exposure to currency risk in USD ('000)	31.12.2018	31.12.2017	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Trade and other receivables	18,651	15,464	x	
Cash including bank deposits	1,130	10,080	x	
Liabilities				
Trade and other liabilities	(6,059)	(3,862)	x	
Hedging instruments: Forward	(31,800)	(5,600)		x
Total exposure	**(18,078)**	**16,082**		

** 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.

Analysis of sensitivity to foreign exchange rate changes –EUR	('000 EUR)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2018			
Currency balance sheet items	**380**	680	(300)
Hedging instruments: Forward and CIRS	**(2,885)**	-	(2,885)
31.12.2017			
Currency balance sheet items	**169**	866	(697)
Hedging instruments: Forward and CIRS	**(2,703)**	-	(2,703)

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

Analysis of sensitivity to foreign exchange rate changes – USD	('000 USD)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2018			
Currency balance sheet items	**137**	137	-
Hedging instruments: Forward	**(318)**	-	(318)
31.12.2017			
Currency balance sheet items	**217**	217	-
Hedging instruments: Forward	**(56)**	-	(56)

** Increase of USD/PLN exchange rate by 1 grosz.*

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Raw material price risk

As part of its operations, the CIECH Group is exposed to the risk of changes in the prices of energy resources (including coal, natural gas, prices of CO2 emission certificates) and the risk of changes in electricity sales prices.

The CIECH Group reduces the market risk of raw materials prices by concluding contracts with suppliers with the appropriate pricing formula or by using forward transactions.

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 Group's point of view, credit risk is linked to:

- trade receivables from customers,
- cash and bank deposits.

The CIECH Group 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 Group 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. On selected markets, where more risky payment deadlines are applied, the Group's companies make use of services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the CIECH Group enters into transactions with high-rating banks with stable market position.

According to the CIECH Group's Companies, assets that are not overdue and not covered by a write-down are of high credit quality.

At the end of the reporting period, in the Group there was an external loan granted by CIECH Trading S.A. to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej in the amount of PLN 1,800 thousand. The carrying amount of the loan corresponds mainly to the value of the mortgage collateral held by the Company.

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	192,139	489,754
Loand and receivables	437,193	411,011
Hedging derivatives with negative value	27,919	59,837
Embedded instruments with negative value	15,979	15,717
TOTAL	**673,230**	**976,319**

The CIECH Group has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance. The table below presents trade receivables by age from maturity date.

	Trade receivables and receivables from factoring		Loans granted	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Soda segment	254,909	222,954	-	-
Organic segment	145,422	132,210	-	-
Silicates and Glass segment	39,128	27,271	-	-
Transport segment	21,703	15,930	-	-
Other activities	16,119	18,871	1,800	26,087
Consolidation adjustments	(41,888)	(32,312)	-	-
TOTAL	**435,393**	**384,924**	**1,800**	**26,087**

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Below is a reconciliation of impairment allowances for trade receivables in accordance with IFRS 9.

01.01.-31.12.2018	ECL in lifetime - without impairment	ECL in lifetime - with impairment	TOTAL
As at 31.12.2017 – according to IAS 39	**-**	**28,919**	**28,919**
IFRS opening balance adjustment	5,098	-	5,098
Opening balance as at 1.01.2018 (according to IFRS 9)	**5,098**	**28,919**	**34,017**
Recognized	182	6,355	**6,537**
Reversed	(142)	(2,842)	(2,984)
Usage	-	(731)	(731)
Change in Group's composition	-	1,054	1,054
Exchange differences	-	464	464
Closing balance according to IFRS 9	**5,138**	**33,219**	**38,357**

Calculation of impairment losses with respect to trade receivables

The tables below present reconciliation of impairment losses on trade receivables in accordance with IFRS 9. The rates of default and the calculation of impairment losses as at January 1, 2018 and December 31, 2018 are presented in the tables below.

	Total	Not overdue	0-30 days	30-90 days	90-180 days	>180 days
Trade receivables gross as at 01.01.2018	**366,587**	**290,684**	**33,895**	**5,641**	**4,560**	**31,807**
Failure ratio		*0.21%*	*0.19%*	*0.83%*	*17.65%*	*11.22%*
Expected credit losses acoording to IFRS 9	5,098	614	64	47	805	3,568
Total expected losses	**34,017**	**1,041**	**156**	**72**	**941**	**31,807**
from grup analysis	5,098	614	64	47	805	3,568
from individual analysis	28,919	427	92	25	136	28,239

	Total	Not overdue	0-30 days	30-90 days	90-180 days	>180 days
Trade receivables gross as at 31.12.2018	**414,705**	**340,650**	**31,963**	**6,389**	**1,675**	**34,028**
Failure ratio		*0.20%*	*0.31%*	*33.00%*	*51.70%*	*6.37%*
Expected credit losses acoording to IFRS 9	5,932	691	98	2,108	866	2,169
Total expected losses	**38,357**	**1,045**	**98**	**2,116**	**1,070**	**34,028**
from grup analysis	5,932	691	98	2,108	866	2,169
from individual analysis	32,425	354	-	8	204	31,859

Liquidity risk

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

The Group's debt financing is ensured primarily by the term loan. In addition, a revolving credit facility in the amount of PLN 250 million has been made available to the Group, among other facilities, 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) and overdrafts, with a limit up to PLN 100,000 thousand and EUR 10,000 thousand.

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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 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	**(2 094 214)**	**(2 229 547)**	**(766 255)**	**(22 006)**	**(41 797)**	**(1 399 489)**	**-**
Trade liabilities	(441 239)	(441 239)	(441 239)	-	-	-	-
Loans and borrowings	(1 632 666)	(1 767 999)	(304 707)	(22 006)	(41 797)	(1 399 489)	-
Factoring	(20 309)	(20 309)	(20 309)	-	-	-	-
Finance lease liabilities	**(23 540)**	**(25 073)**	**(3 134)**	**(3 284)**	**(8 632)**	**(9 399)**	**(624)**
Derivatives recognised in financial liabilities designated as hedging instruments	**(44 768)**	**(45 934)**	**(930)**	**(5 570)**	**(8 102)**	**(31 332)**	**-**
TOTAL	**(2 162 522)**	**(2 300 554)**	**(770 319)**	**(30 860)**	**(58 531)**	**(1 440 220)**	**(624)**

31.12.2017	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	**(1,738,485)**	**(1,821,902)**	**(424,279)**	**(215,123)**	**(226,365)**	**(956,135)**	**-**
Trade liabilities	(380,404)	(380,404)	(380,404)	-	-	-	-
Loans and borrowings	(1,329,919)	(1,413,336)	(15,713)	(215,123)	(226,365)	(956,135)	-
Factoring	(28,162)	(28,162)	(28,162)	-	-	-	-
Finance lease liabilities	**(24,888)**	**(26,769)**	**(2,323)**	**(2,938)**	**(7,894)**	**(7,744)**	**(5,870)**
Derivatives recognised in financial liabilities designated as hedging instruments	**(43,669)**	**(45,900)**	**(393)**	**(1,205)**	**(5,328)**	**(38,974)**	
TOTAL	**(1,807,042)**	**(1,894,571)**	**(426,995)**	**(219,266)**	**(239,587)**	**(1,002,853)**	**(5,870)**

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	192,139	192,139	489,754	489,754
Loans granted	1,800	1,800	26,087	26,087
Trade receivables	376,348	376,348	337,668	337,668
Aktywa finansowe z wyceny instrumentów pochodnych	27,919	27,919	59,837	59,837
Embedded instruments with positive value	15,979	15,979	15,717	15,717
Factoring receivables	59,045	59,045	47,256	47,256
ASSETS	**673,230**	**673,230**	**976,319**	**976,319**
Loans and borrowings	(1,632,666)	(1,639,869)	(1,329,919)	(1,335,630)
Trade liabilities	(441,239)	(441,239)	(380,404)	(380,404)
Hedging derivatives with negative value	(44,768)	(44,768)	(43,669)	(43,669)
Financial lease liabilities	(23,540)	(23,540)	(24,888)	(24,888)
Factoring liabilities	(20,309)	(20,309)	(28,162)	(28,162)
LIABILITIES	**(2,162,522)**	**(2,169,725)**	**(1,807,042)**	**(1,812,753)**

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:

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- 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.
- Level 2 – the CIECH Group values 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 evaluation techniques which are not based on observable market inputs.

Assets and liabilities measured at fair value

	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS	**22,756**	**44,010**	**37,766**	**11,458**	**75,554**	**44,268**
Investment properties	-	-	37,766	-	-	44,268
Hedging instruments	-	27,919	-	-	59,837	-
Derivatives with positive value	-	112	-	-	-	-
Futures contracts	22,756	-	-	11,458	-	-
Embedded instruments	-	15,979	-	-	15,717	-
LIABILITIES	**-**	**(44,768)**	**-**	**-**	**43,669**	**-**
Hedging instruments	-	(44,768)	-	-	43,669	-
TOTAL	**22,756**	**(759)**	**37,766**	**11,458**	**119,223**	**44,268**

As at 31 December 2018, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO_2 certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO_2 units in 2018 and 2019 — Level 1, according to the fair value hierarchy,
- concluded by the parent company, CIECH S.A.: interest rate swap contracts, CIRS (currency and interest rate swap) contract EUR/PLN — Level 2, according to the fair value hierarchy,
- currency forward EUR/PLN concluded by CIECH Vitrosilicon S.A. — Level 2, according to the fair value hierarchy,
- isolated option instruments (acquired call options) embedded in the gas supply contract concluded by CIECH Energy Deutschland GmbH on 1 August 2016, hedging the cost of gas purchased in 2016–2020 — Level 2, according to the fair value hierarchy,
- currency forwards EUR/PLN and USD/RON concluded by CIECH S.A. — Level 2, according to the fair value hierarchy.

In 2018, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

The fair value of instruments concluded is determined in the following manner:

- 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.
- Futures contracts for the purchases of CO_2 certificates are settled on a daily basis according to quotations published on ICE and EEX's stock exchange,

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- options (call) embedded to gas purchases contract, are valued according to Black-Scholes model, taking into account forward prices quoted on ICE and EEX's stock exchange and implied volatility of gas prices specified based on stock quotations for options for gas purchases.

Fair value of derivative instruments and embedded instruments	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other non-current 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)**
Embedded instruments	-	4,007	11,972	-	-	**15,979**
Futures contracts	22,756	-	-	-	-	**22,756**
TOTAL	**22,756**	**15,866**	**28,032**	**(38,181)**	**(6,587)**	**21,886**
31.12.2017						
IRS EUR	-	210	-	(620)	(1,336)	**(1,746)**
CIRS	-	34,876	18,654	(40,908)	(805)	**11,817**
Forward EUR/PLN	-	-	4,668	-	-	**4,668**
Forward USD /RON	-	-	1,429	-	-	**1,429**
Embedded instruments	-	8,576	7,141	-	-	**15,717**
Futures contracts	11,458	-	-	-	-	**11,458**
TOTAL	**11,458**	**43,662**	**31,892**	**(41,528)**	**(2,141)**	**43,343**

Investment properties are also measured at the fair value in the financial statements. According to the fair value hierarchy, it is Level 3. Investment real estate portfolio is evaluated by an external, independent property appraiser or based on a preliminary sale agreement. In measuring the fair value of land used under the perpetual usufruct in Bydgoszcz, a comparative method was applied. The comparative approach means measuring the value through an analysis of recent sales or listings of comparable assets. These transactions or offers are adjusted in order to take into account differences of the valuated assets and comparable assets on the day of their sale, for example date of sale, location, area, technical status and other. According to the method of average price adjustments, estimating the property value that is the subject of valuation is based on the average price adjustment of similar properties, that form the base for the comparison creating adjustment coefficients corresponding to different characteristics of these properties. The calculations are based on comparative properties, described by attributes influencing the level of properties prices and transaction prices of these properties.

Valuation of buildings located in Bydgoszcz and tangible assets identified as technical infrastructure (including assets that are necessary to keep properties operational but which are not traded on the secondary market) is synthetically included in the total value of land valuated under the comparative approach method. Buildings and structures located on plots of land in Bydgoszcz have no impact on the market value of this land, therefore, for accounting purposes, the value of this group of assets was determined based on their book value. In the final balance sheet, the value of buildings and structures was deducted from the value of land.

The measurement of the fair value of investment property does not include transaction costs, which the entity might additionally bear, future capital expenditures regarding development or improvement of the investment property, as well as future benefits regarding those expenditures.

The verification of the fair value of investment properties is conducted at least once a year at the balance sheet date ending the financial year.

Financial instruments not measured at fair value

The CIECH Group has taken out term and revolving credit facilities whose book value, as at 31 December 2018, was PLN 1,632,666 thousand, and whose fair value amounted to PLN 1,639,869 thousand (Level 2 of fair value hierarchy). The Group concluded 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 the CIECH Group (classified mainly as cash and cash equivalents, loans and receivables, financial liabilities measured at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IFRS 9), the fair value is close to the book value.

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9 OTHER NOTES

9.1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	31.12.2018	31.12.2017
Inventory change presented in consolidated statement of financial position	**74,001**	**65,253**
Currency translation reserve	(1,703)	2,812
Change in Group’s composition	(23,070)	-
Inventory change in consolidated statement of cash flows	**49,228**	**68,065**

	31.12.2018	31.12.2017
Provision change presented in consolidated statement of financial position	**50 717**	**(23,551)**
Reclassification of provisions to /from liabilities	11 317	(823)
Change in the provision for income tax	(43 700)	-
Currency translation reserve	(2 924)	6,366
Other	3 422	1
Provisions change in consolidated statement of cash flows	**18 832**	**(18,007)**

	31.12.2018	31.12.2017
Receivables change presented in consolidated statement of financial position	**71,136**	**(10,048)**
Change in investment receivables	(298)	13,517
Change in income tax receivables	(2,872)	298
Change in receivables from caverns	17,074	19,619
Change in Group’s composition	(7,633)	-
Currency translation reserve	(7,784)	15,257
Other	4,433	7,346
Receivables change presented in consolidated statement of cash flows	**74,056**	**45,989**

	31.12.2018	31.12.2017
Change of liabilities presented in consolidated statement of financial position	**318,437**	**(250,682)**
Change in investment liabilities	36,137	14,594
Change in financial liabilities	(298,043)	266,408
Change in income tax liabilities	(5,082)	(4,091)
Currency translation reserve	(16,912)	29,394
Change in Group’s composition	(3,797)	-
Other	(23,353)	10,536
Liabilities change presented in consolidated statement of cash flows	**7,387**	**66,159**

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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 Group. An example is a claim that the Group is pursuing through legal processes, where the outcome is uncertain. Contingent assets are not recognised in the statement of financial position since this could 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 Group'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.

Significant disputed liabilities of the CIECH Group

As at 31 December 2018, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described below under "Audits of tax settlements at the CIECH Group" and the case described below:

The case brought by OOO GK ZEMLYAKOFF against CIECH Sarzyna S.A. for payment

Subject of the claim: compensation for improper performance of the contract. Value of the dispute: USD 7,566 thousand.

On March 4, 2019, CIECH Sarzyna S.A. received a counter-claim from OOO GK ZEMLYAKOFF for payment of USD 7,566 thousand with statutory interest for delay from the date of filing the lawsuit (November 30, 2016). The amount claimed by OOO GK ZEMLYAKOFF constitutes compensation for improper performance of the contract consisting in the delivery of a defective plant protection product called Expert Trio OF KE. Case pending.

In order to demonstrate the damage suffered, witnesses and documents from Zemlyakoff were appointed, including agreements linking Zemlyakoff with contractors (Zemlyakoff claims losses lost as a result of the termination of commercial cooperation due to product defects, in particular with two main contractors). Zemlyakoff presented the same evidence in response to the lawsuit of CIECH Sarzyna S.A. for payment.

Given the evidence submitted, Zemlyakoff's claim for damages, disregarding its unfoundedness (CIECH Sarzyna consistently denies responsibility for the product's defectiveness), has not been demonstrated in terms of the existence of damage, its amount and adequate causation. According to CIECH Sarzyna S.A. and its representative, the claim should be dismissed.

Significant disputed receivables of the CIECH Group

As at 31 December 2018, the CIECH Group did not hold any significant disputed receivables of CIECH S.A. and CIECH S.A.'s subsidiaries, 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	**22,060**	**23,527**
Other contingent receivables*	22,060	23,527
Contingent liabilities	**522,544**	**568,733**
Guarantees and sureties granted**	421,130	396,408
Other***	101,414	172,325

** Including:*

- *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.*
- *CIECH Soda Polska S.A. – value of recognised contingent asset as at the end of 2018 amounts to PLN 3,196 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in 2017 that have not been recorded yet in the account kept by the Polish Power Exchange.*

*** 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,*

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- *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.*

**** Including mainly:*

- *contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,661 thousand (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 36,524 thousand,*
- *contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to grants received in the amount of PLN 19,898 thousand,*
- *contingent liabilities in CIECH Sarzyna S.A. resulting from a grant received for developing and testing a group of agro-chemical preparations in the amount of PLN 14,645 thousand,*
- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 13,385 thousand.*

As at 31 December 2018, contingent liabilities amounted to PLN 522,544 thousand and decreased as compared to 31 December 2017 by PLN 46,189 thousand. This change resulted primarily from:

- repayment of a part of debt on account of loans and changes in the level of guarantees granted,
- signing of annexes for subsidies received,
- expiry of promissory notes for grants received.

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)
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) (subsidiary)
Total amount of guarantees and sureties granted				**PLN 165,132 thousand**
Selected subsidiaries in Poland, Germany and Romania				

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		
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 PLN 312,500 thousand 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**

In 2018, the CIECH Group companies did not receive any guarantees from third parties.

Letters of support

As at 31 December 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.

Audits of tax settlements at the CIECH Group

In 2018, tax authorities carried out tax audits or tax proceedings in the companies of the Ciech Group with respect to CIT and VAT settlements.

The Ciech Group companies were subject to **CIT audits/proceedings** concerning the following years:

a) 2012
   - at CIECH S.A.

b) 2013
   - at CIECH S.A.

c) 2015
   - at CIECH Soda Polska S.A.
   - at CIECH Pianki Sp. z o.o.
   - at CIECH Cargo Sp. z o.o.
   - at CIECH Sarzyna S.A.
   - at CIECH Vitrosilicon S.A.

d) 2016
   - at CIECH Sarzyna S.A.

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 above mentioned 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.

CIT audit for 2015 at CIECH Soda Polska S.A. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 10 October 2016. On 7 March 2017, the tax office issued the tax audit report. The irregularities found result primarily from the fact that the auditors challenged the Company's right to settle the loss from participation in a partnership, as in the case of CIECH Pianki Sp. z o.o., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A. The Company and its tax advisors do not agree with the position of the auditors. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 3.9 million (the tax base challenged by the authority is PLN 20.6 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2015 at CIECH Pianki Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 22 November 2016. On 3 March 2017, the tax office issued the tax audit report. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the Company's right to settle the loss from participation in a partnership.

If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 2.6 million (the tax base challenged by the authority is PLN 13.8 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2015 at CIECH Cargo Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 23 January 2017. On 14 June 2017, the tax office issued the tax audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the Company's right to settle the loss from participation in a partnership. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 1.7 million (the tax base challenged by the authority is PLN 8.8 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2015 at CIECH Vitrosilicon S.A. was initiated by the Head of the Lubuskie Province Customs and Tax Office in Gorzów Wielkopolski on 19 April 2018. The company received the outcome of the audit on 4 January 2019. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., the authority challenged the Company's right to settle the loss from participation in a partnership. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 2.7 million (the tax base challenged by the authority is PLN 14.4 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2015 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 6 February 2017. On 7 November 2017, the tax office issued the audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Cargo Sp. z o.o., the authority challenged the Company's right to settle the loss from participation in a partnership. In addition, the authority challenged the company's right to include the fee for the trademark and interest on loans paid in advance in tax deductible costs.

If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 6.9 million (the tax base challenged by the authority is PLN 36.4 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2016 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 26 February 2018. On 11 January 2019, the tax office issued the audit report. According to the authority, the expenses incurred by the company in 2016 for the use of Chwastox trademarks cannot be classified as tax deductible costs. In addition, the company should have included interest on loans paid in advance in 2015 in its tax deductible costs in 2016. Additionally, the authority claims that the company may not offset the loss for 2015 in the annual return for 2016. In January 2019, the Company submitted objections to the report. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 4.3 million (the tax base challenged by the authority is PLN 22.4 million) plus with interest due.

The Group estimated that the potential impact on income tax expense (in the form of additional tax liabilities or inability to recover a deferred income tax asset calculated for tax losses), in connection with the above events which are or may continue to be challenged, would amount to PLN 143.8 million, if it were no longer probable that the Group would be able to uphold its tax interpretations before the tax authorities. From the above-mentioned amount of PLN 143.8 million, the provision covered a potential tax liability in the amount of PLN 43.7 million resulting from CIT audit for 2012 at CIECH S.A.

The Ciech Group companies were subject to **VAT audits/proceedings** concerning the following years:

a) Fourth quarter of 2013
   -at Verbis Kappa Sp. z o.o. S.K.A.
   -at Verbis ETA Sp. z o.o. S.K.A.
b) December 2014
   -at Cerium Finance Sp. z o.o.
c) January–June 2018
   -at CIECH Trading S.A.

VAT audit for the fourth quarter of 2013 at Verbis Kappa Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 6 April 2018. The company received the outcome of the audit on 11 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The Company, however, recognised the market value of the in-kind contribution less the amount of VAT as the taxable amount. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 35.7 million which translates into a tax of PLN 8.2 million.

The Company and the other party to the transaction, i.e. CIECH Sarzyna S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the position presented in the motion that the taxable amount of the in-kind contribution made in 2013 was the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, in the opinion of CIECH Sarzyna S.A. and its advisors, the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the Company did not make a VAT correction, considering that the tax treatment of the in-kind contribution made in 2013 was correct. Tax proceedings are currently underway at the Company.

VAT audit for the fourth quarter of 2013 at Verbis ETA Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 16 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The Company, however, recognised the market value of the in-kind contribution less the amount of VAT as the taxable amount. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 133.5 million which translates into a tax of PLN 30.7 million.

The Company and the other party to the transaction, i.e. CIECH S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the CIECH S.A.'s position that the company had determined the taxable amount in a correct manner, i.e. the taxable amount of the in-kind contribution made in 2013 should have been the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, in the opinion of the company and its advisors, grounds for defending the position that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the Company and, accordingly, the other party to the transaction complied with the ruling. Tax proceedings are currently underway at the Company.

VAT audit for December 2014 at Cerium Finance Sp. z o.o. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 19 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The Company, however, recognised the market value of the in-kind contribution less the amount of VAT as the taxable amount. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 110 million which translates into a tax of PLN 25.3 million. Guided by the outcome of the audit, the other party to the in-kind contribution transaction, i.e. CIECH Soda Polska S.A., issued a correction to the invoice, specifying the taxable amount of the in-kind contribution as the nominal value of the shares acquired. Cerium Finance Sp. z o.o. included the correction of the invoice in the current tax return and paid the tax. CIECH Soda Polska S.A. received a refund of overpaid VAT.

The Company and CIECH Soda Polska S.A. filed motions for tax rulings. The Director of the National Revenue Information agreed with the position of the companies with respect to the recognition of a possible VAT correction in the current period. In turn, CIECH Soda Polska S.A. received a reply that the taxable amount of the in-kind contribution made in 2013 was the nominal value of the shares acquired.

Taking into account the ruling concerning the taxable amount and the regulations, as amended in 2014, according to which the taxable amount should be the value contributed to the share capital, the company is of the opinion that the correction made (included in the current period) is correct. Tax proceedings are currently underway at the Company.

VAT audit for the period from January to June 2018 at CIECH Trading S.A. is carried out by the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (for the period from January to April 2018) – commenced on 20 June 2018, and by the Head of the Śląskie Province Customs and Tax Office in Katowice (for the period from May to June 2018) – commenced on 19 September 2018. The audit is ongoing and the company has not yet received any audit findings.

If the authorities continue to challenge, despite the positive rulings received, the VAT settlements, taking into account the principle of VAT neutrality, Verbis Kappa Sp. z o.o. S.K.A., Verbis Eta Sp. z o.o. S.K.A. and Cerium Finance Sp. z o.o. may be required to pay interest on VAT that, according to the auditors, was unduly deducted. As at the balance sheet date, this interest amounts to approx. PLN 23.9 million.

The CIT audit at the Ciech Group in Germany concerns CIT settlements of the following companies: Sodawerk Staßfurt Verwaltungs GmbH, CIECH Soda Deutschland GmbH & Co. KG, Sodawerk Holding Staßfurt GmbH, SDC GmbH.

The audits cover settlements for 2006, 2007-2009 and 2010-2015. In the event of a different assessment of economic events by audit authorities, there may be an obligation to recalculate and potentially increase tax liabilities and pay interest on tax arrears. As at the balance sheet date, the result of the audit is not known - the companies have not received any protocols from the tax authorities.

In addition to the audits indicated above, in 2018 CIECH S.A. received a written statement of reasons from the Provincial Administrative Court in Warsaw that agreed with the company's position with respect to the findings of the audit of CIT settlements for 2010. The verdict was issued at the end of 2017. The Head of the Tax Administration Chamber did not appeal 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

Transactions between the parent, CIECH S.A., and its subsidiaries were eliminated during consolidation and have not been presented in this note.

Detailed information about transactions between the CIECH Group 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. and non-consolidated companies of the CIECH Group) is presented below:

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	01.01.-31.12.2018	01.01.-31.12.2017
Revenues from sales of products and services	4,267	5,200
Revenues from sales of goods and materials	98,941	103,259
Other operating income	4	2,743
Financial income	502	754
Purchase of products, goods and materials	1	*27*
Purchase of services, including:	36,844	35,550
*KI One S.A.**	*448*	*758*
Other operating expenses	587	1,279
Financial expenses	5	28
	31.12.2018	**31.12.2017**
Receivables, including:	14,695	18,792
*KI One S.A.**	-	*939*
Impairment losses on receivables and loans	2	1
Liabilities, including:	5,370	5,135
*KI One S.A.**	*1,071*	-

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

Terms of transactions with related entities

CIECH Group's companies, to the best of their knowledge and belief, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. Receivables from related entities have not been secured by any guarantees granted or received besides those described in note 9.2.

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

9.3.2. SIGNIFICANT TRANSACTIONS CONCLUDED BY COMPANIES OR SUBSIDIARIES WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

CIECH Group's companies, to the best of their judgement, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions.

9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

Information on significant transactions with related parties is provided in note 6.4 to 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.

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	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.

	Remuneration received from CIECH S.A. in 2018	Remuneration received from CIECH S.A. in 2017
Sebastian Kulczyk	**-***	**-***
Piotr Augustyniak	**411**	**158**
Tomasz Mikołajczak	**200**	**144**
Mariusz Nowak	**332**	**144**
Artur Olech	**332**	**144**
Dominik Libicki	82	117
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.

9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE CIECH GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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.

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In 2018, PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. and foreign companies from the network of member firms of PricewaterhouseCoopers were also the auditors of the most significant consolidated subsidiaries/subsidiary groups of CIECH S.A., including: CIECH Soda Polska S.A., SDC Group, CIECH Soda Romania S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Pianki Sp. z o.o.

Value of agreements concluded with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. and members of the PricewaterhouseCoopers network:

CIECH S.A.	2018*	2017*
Audit of the annual financial statements	335	102
Review of the semi-annual report	93	83
Other attestation services	1	1
Tax advisory services	-	156**
Other services	10	204
TOTAL	**439**	**546**
Konsolidowane spółki zależne Grupy CIECH	**2018***	**2017***
Audit of the annual financial statements	1,168	914
Review of the semi-annual report	73	82
Other services	-	23
TOTAL	**1,241**	**1,019**

** 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. COMPOSITION OF THE GROUP

Accounting policy – Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control occurs when the Group has the power to govern either directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing the control, the influence of both existing and potential voting rights exercisable at the reporting date are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When selecting entities for consolidation, the Management Board was guided by the criteria of significance of their financial data (according to the concept assumptions of IFRS), for executing the obligation of an actual and reliable image of the material and financial situation, and the financial result of the Group.

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A list of fully consolidated companies and companies accounted for under the equity method is provided below:

Company name	Registered office	Segment	Business	Share in equity as at 31.12.2018 / % of votes at the GMS	Share in equity as at 31.12.2017 / % of votes at the GMS
Parent company					
CIECH S.A.	Warsaw	Soda, Organic, Silicates and Glass, Transport, Other	Sales of chemical products manufactured within the CIECH Group, sales of chemical products purchased from third-party producers, holding activities, managing a portfolio of subsidiaries, provision of support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, financial activities in the form of direct lending to the companies in the Group.	-	-
Fully consolidated direct and indirect subsidiaries					
CIECH Trading S.A.	Warsaw	Soda, Other	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 feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, Silicates and Glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Iłowa	Silicates and Glass	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Other	Since 2017, the Company has not carried out any operating activities.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies.	100%	100%
Vasco Polska Sp. z o.o.	Inowrocław	Other	Utilisation of post-soda lime in the restoration of degraded land.	90%	90%
Bosten S.A.	Warsaw	Other	Research & Development	100%	100%
CIECH Nieruchomości S.A.**	Warsaw	Other	Real property agency, real property management.	100%	100%
Proplan Plant Protection Company S.L.	Madrid, Spain	Organic	Production of crop protection chemicals	100%	-
CIECH R&D Group					
CIECH R&D Sp. z o.o.	Warsaw	Other	Research and developments activities, granting licenses to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta".	100%	100%
Smart Fluid Sp. z o.o.	Warsaw	Other	Research & Development	52.83%	-

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Company name	Registered office	Segment	Business	Share in equity as at 31.12.2018 / % of votes at the GMS	Share in equity as at 31.12.2017 / % of votes at the GMS
CIECH Finance Group					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.	100%	100%
JANIKOSODA S.A.	Warsaw	Other	Since March 2017, the Company has not carried out any operating activities.	100%	100%
CIECH Soda Polska Group					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Transport	Freight transport services.	100%	100%
Cerium Sp. z o.o.	Warsaw	Other	General partner of CIECH Cerium Sp. z o.o. SKA.	100%	100%
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	100%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of resins, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Organic	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Organic	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Organic	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
SDC Group					
SDC GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda		100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kaverngesellschaft Stassfurt GbmH****	Stassfurt, Germany	Soda		50%	50%

**Number of shares / votes at the GMS attributable directly to CIECH S.A. — 83.03%, indirect share through CIECH Soda Polska S.A. — the remaining 16.97%.*
***Shares in the share capital acquired by CIECH S.A. – 99.18% and CIECH Finance Sp. z o.o. – 0.82%.*
****Shares in the share capital acquired by CIECH S.A. – 1.4% and CIECH Soda Polska S.A. – 98.6%.*
*****Jointly-controlled company accounted for under the equity method.*

9.6. 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.

On 20 March 2019, CIECH Soda Romania S.A. made a decision to initiate the procedure of collective redundancies in the Subsidiary. The reason for the planned collective redundancies is the need to restructure fixed costs by reducing the level and the costs of employment in the Subsidiary. This decision is a result of the increase in prices of process steam as of 1 January 2019, and the risk arising from the limitation of steam supply by about 20%, as compared to the current status, in the period from 15 May 2019 until the beginning of the next heating season, as announced by the sole supplier of process steam - S.C. CET Govora S.A. The limitation of steam supply may result in the reduction of soda production at a comparable level. As part of collective redundancies, CIECH Soda Romania S.A. intends to dismiss up to 95 employees, which represents 16,1% of the plant team, starting from 15 May 2019. On 20 March 2019, CIECH Soda Romania S.A. notified the company's trade union organisation operating in the Subsidiary and the relevant Romanian authorities – the Employment Office and the State Labour Inspection Service about the intention and causes of collective redundancies.

REPRESENTATION OF THE MANAGEMENT BOARD

These Consolidated financial statements of the CIECH Group 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