CCC

CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP CCC S.A. FOR 2019

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[in mln PLN unless otherwise stated]

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOTE		1.2019-12.2019	1.2018-12.2018
	CONTINUING OPERATIONS		CONVERTED DATA
3.1	Sales revenue	5 844,7	4 725,8
3.2	Cost of goods sold	(2 956,1)	(2 359,1)
	GROSS PROFIT ON SALES	2 888,6	2 366,7
3.2	Cost of operating stores	(1 570,8)	(1 263,7)
3.2	Other cost of sale	(958,6)	(663,8)
3.2	Administrative expenses	(236,7)	(188,2)
3.3	Other operating income	44,8	132,7
3.3	Other operating costs	(34,2)	(11,2)
	Profit (loss) on operating activity	133,1	372,5
3.3	Finance income	143,3	3,7
3.3	Finance costs	(231,3)	(119,9)
6.2	Share of net profit (loss) of associates accounted for using the equity method	(17,5)	0,1
	Profit (loss) before tax	27,6	256,4
3.4	Income tax	(9,2)	(32,9)
	NET PROFIT (LOSS) ON CONTINUING OPERATIONS	18,4	223,5
6.4	Discontinued operations		
6.4	NET LOSS FROM DISCONTINUED OPERATIONS	(45,9)	(166,8)
	Net profit	(27,5)	56,7
	Attributable to shareholders of the parent company	(27,4)	59,3
	Attributable to non-controlling interest	(0,1)	(2,6)
	Other comprehensive income from continuing operations		
	Attributable to be reclassified to profit – exchange rate differences upon conversion of reports of foreign entities	(0,9)	6,2
	Non-attributable to be reclassified to result – other:	—	—
	Actuarial profit (losses) related to employee benefits	1,4	—
	Other comprehensive income from discontinued operation		
	Attributable to be reclassified to profit – exchange rate differences upon conversion of reports of foreign entities	(0,3)	(0,4)
	Total other net comprehensive income	0,2	5,8

NOTE		1.2019-12.2019	1.2018-12.2018
	TOTAL COMPREHENSIVE INCOME	(27,3)	62,5
	Total comprehensive income attributable to:		
	Shareholders of the parent company from:	(27,2)	65,1
	– countinuing operations	19,0	232,3
	– discontinued operations	(46,2)	(167,2)
	Non-controlling interests	(0,1)	(2,6)
	Weighted average number of ordinary shares (mln pcs)	41,2	41,2
	Basic earnings per share from continuing operations (in PLN)	0,31	5,43
	Diluted earnings per share from continuing operations (in PLN)	0,31	5,43
	Basic earnings per share from discontinued operations (in PLN)	(1,11)	(4,05)
	Diluted earnings per share from discontinued operations (in PLN)	(1,11)	(4,05)

i MORE INFORMATION IN SECTION **5.1.1.2** IN REPORT ON THE OPERATIONS OF THE GROUP
DETAILED INFORMATION ON EARNINGS PER SHARE IS PRESENTED IN NOTE **4.1**

[in mln PLN unless otherwise stated]

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOTE		31.12.2019	31.12.2018
			CONVERTED DATA
5.1	Intangible assets	326,4	261,7
5.2	Goodwill	217,9	202,5
5.3	Tangible fixed assets - investments in stores	655,9	615,4
5.3	Tangible fixed assets - factory and distribution	615,8	427,2
5.3	Tangible fixed assets - other	108,3	101,7
5.4	Right to use	1 986,6	1 870,1
3.4	Deferred tax assets	110,3	74,8
5.6	Loans granted	78,0	—
6.1, 6.2	Other financial assets	23,5	10,1
4.1	Investments in associates accounted for using the equity method	29,8	0,2
6.2	Investment property	5,3	—
5.6	Trade receivables	37,2	—
5.6	Long-term reciveables	15,5	10,4
	Non-current assets	4 210,5	3 574,1
5.5	Inventories	1 942,3	1 806,1
5.6	Trade receivables	209,3	124,4
3.4	Income tax receivables	1,4	6,8
5.6	Loans granted	4,6	37,7
5.6	Other receivables	233,0	306,4
5.7	Cash and cash equivalents	542,6	375,8
6.1	Derivative financial instruments	—	1,3
	Current assets	2 933,2	2 658,5
6.3	Assets classified as held for sale	—	503,4
	Current assets and assets of the group held for sale	2 933,2	3 161,9
	TOTAL ASSETS	7 143,7	6 736,0
4.2	Debt liabilities	683,0	210,0
3.4	Deferred tax liabilities	37,4	34,2
5.8	Liabilities to employees	12,7	12,7
5.9	Provisions	14,0	12,1
5.3	Grants received	19,0	19,2
6.2	Obligation to repurchase non-controlling interests	801,1	878,7
5.4	Lease liabilities	1 528,6	1 484,0
	Non-current liabilities	3 095,8	2 650,9

[in mln PLN unless otherwise stated]

NOTE		31.12.2019	31.12.2018
4.2	Debt liabilities	830,4	806,8
5.8	Trade and other liabilities	1 158,2	864,2
5.8	Other liabilities	378,0	274,3
3.4	Income tax liabilities	12,8	29,0
5.9	Provisions	18,3	17,2
5.3	Grants received	2,4	2,4
5.4	Lease liabilities	557,2	425,2
6.1	Derivative financial instruments	1,0	—
	Current liabilities	2 958,3	2 419,1
6.3	Liabilities directly associated with assets classified as held for sale	—	518,2
	Current liabilities directly associated with assets classified as held for sale	2 958,3	2 937,3
	TOTAL LIABILITIES	6 054,1	5 588,2
	Net assets	1 089,6	1 147,8
	EQUITY	—	—
4.1	Share capital	4,1	4,1
	Share premium	645,1	645,1
	Exchange rate differences upon conversion of foreign entities	0,2	2,9
	Actuarial valuation of employee benefits	1,4	(0,3)
	Retained earnings	312,8	369,1
	Equity attributable to the shareholders of the parent entity	963,6	1 020,9
4.1	Non-controlling interests	126,0	126,9
	TOTAL EQUITY	1 089,6	1 147,8
	TOTAL LIABILITIES AND EQUITY	7 143,7	6 736,0

i MORE INFORMATION IN SECTION **5.1.1.2** IN REPORT ON THE OPERATIONS OF THE GROUP

[in mln PLN unless otherwise stated]

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTE		1.2019-12.2019	1.2018-12.2018
	Profit (loss) before tax	(17,9)	91,5
3.2	Amortization and depreciation	716,3	602,4
	Impairment on fixed assets	2,2	63,7
	Loss on investment activity	(3,5)	(19,1)
	Share of net profit (loss) of associates accounted for using the equity method	17,0	-
4.2	Cost of borrowings	77,6	60,5
4.4	Other adjustments to profit before tax	80,4	(23,1)
3.4	Income tax paid	(47,3)	(23,7)
	Cash flows before changes in working capital	824,8	752,2
	Changes in working capital		
4.4	Change in inventory and inventory write-downs	(81,1)	(277,6)
4.4	Change in receivables	(73,8)	(99,8)
4.4	Change in current liabilities, excluding borrowings	316,7	621,0
	Net cash flows from operating activities	986,6	995,8
	Proceeds from the sale of tangible fixed assets	51,4	99,2
5.6	Repayment of loans granted and interest	3,9	16,8
	Other inflows from investing activities	26,8	-
	Acquisition of intangible and tangible fixed assets	(496,9)	(438,7)
6.2	Loans granted	(148,9)	(7,6)
6.2	Payment related to acquisition of Adler enterprise	(16,5)	-
	Purchase of investment in subsidiaries	-	(214,7)
6.2	Acquisition of financial assets	-	(10,4)
6.2	Payment related to investment in HR Group associate	(118,4)	-
	Other outflows from investing activities	(5,5)	-
6.2	Payment related to investment in Gino Rossi subsidiary	(9,5)	(65,4)
	Net cash flows from investing activities	(713,6)	(620,8)
4.2	proceeds from borrowings	569,6	277,1
4.2	Issue of bonds	-	210,0
4.1	Dividends and other payments to owner	(23,9)	(94,7)
4.2	Repayment of borrowings	(75,0)	(207,6)
4.2	Redemption of bonds	(6,9)	(203,0)
	Lease payments	(491,6)	(435,9)
4.2	Interest paid	(76,9)	(60,7)
	Net cash flows from financing activities	(104,7)	(514,8)
	TOTAL CASH FLOWS	168,3	(139,8)
	Net increase/decrease of cash and cash equivalents	166,8	(135,9)
	Exchange rate changes on cash and cash equivalents	(1,5)	3,9
	Cash and cash equivalents at beginning of period	374,3	514,1
	Cash and cash equivalents at the end of period	542,6	374,3

i MORE INFORMATION IN SECTION **5.1.1.3** IN REPORT ON THE OPERATIONS OF THE GROUP

[in mln PLN unless otherwise stated]

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	RESERVE CAPITAL	RETAINED EARNINGS	EXCHANGE RATE DIFFERENCES UPON CONVERSION OF FOREIGN ENTITIES	ACTUARIAL VALUATION OF EMPLOYEE BENEFITS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY					
As of 31.12.2018 (01.01.2019)	4,1	645,1	369,1	2,9	(0,3)	126,9	1 147,8
Net profit (loss) for the period	—	—	(27,5)	—	—	—	(27,5)
Net profit (loss) attributable to non-controlling interests	—	—	0,1	—	—	(0,1)	—
Exchange rate differences from the translations	—	—	—	(2,7)	—	1,4	(1,3)
Actuarial valuation of employee benefits	—	—	—	—	1,7	—	1,7
Total comprehensive income	—	—	(27,4)	(2,7)	1,7	1,3	(27,1)
Dividend resolution	—	—	(23,9)	—	—	—	(23,9)
Valuation of employee option program	—	—	(12,2)	—	—	—	(12,2)
Purchase of shares[2]	—	—	—	—	—	14,4	14,4
Total transactions with owners	—	—	(36,1)	—	—	14,4	(21,7)
Obligation to purchase of own shares of subsidiary[2]	—	—	7,2	—	—	(16,6)	(9,4)
As of 31.12.2019 (01.01.2020)	4,1	645,1	312,8	0,2	1,4	126,0	1 089,6
As of 01.01.2018	4,1	644,9	453,1	(1,3)	(0,3)	67,8	1 168,3
Net profit (loss) for the period	—	—	56,7	—	—	—	56,7
Net profit (loss) attributable to non-controlling interests	—	—	2,6	—	—	(2,6)	—
Exchange rate differences from the translations	—	—	—	4,2	—	1,6	5,8
Total comprehensive income	—	—	59,3	4,2	—	(1,0)	62,5
Dividend payment	—	—	(94,7)	—	—	—	(94,7)
Valuation of employee option program	—	—	25,4	—	—	—	25,4
Issue of shares[1]	—	0,2	—	—	—	—	0,2
Purchase of shares[2]	—	—	—	—	—	60,1	60,1
Total transactions with owners	—	0,2	(69,3)	—		60,1	(9,0)
Obligation to purchase of own shares of subsidiary[2]	—	—	(74,0)	—	—	—	(74,0)
As of 31.12.2018 (01.01.2019)	4,1	645,1	369,1	2,9	(0,3)	126,9	1 147,8

[1] The issue of shares in the reporting year 2018 concerned the implementation of the incentive program. In the reporting year 2018, 4,000 ordinary bearer shares were issued, as at the balance sheet date the share capital was paid up and registered. More information is described in note 4.1.

[2] Liabilities arising from the option to acquire non-controlling interests, the acquisition of interests in subsidiaries and the redemption of non-controlling interests are described in detail in Note 6.2.

[in mln PLN unless otherwise stated]

NOTES

1. GENERAL INFORMATION

Name of the company	CCC Spółka Akcyjna
Headquarters	ul. Strefowa 6, 59-101 Polkowice
Registration	District Court for Wrocław-Fabryczna in Wrocław, IX Commercial Division of the National Court Register,
National Court Register/KRS/	0000211692
Corporate purpose	The Group's primary corporate purpose according to the European Classification of Economic Activities is wholesale and retail trade of clothing and footwear (ECEA 5142).
Composition of the Management Board:	President of the Management Board: Marcin Czyczerski Vice-President of the Management Board: Mariusz Gnych Vice-President of the Management Board: Karol Półtorak

The Company CCC S.A. the Parent Entity in the Capital Group CCC S.A. (hereinafter: Parent Entity) has been listed on the Warsaw Stock Exchange S.A. in Warsaw since 2004.

BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards approved by the European Union (EU). Selected entities of the Group keep their accounting books in accordance with the accounting policy (principles) specified by the Accounting Act of 29 September 1994 (the „Act") as amended and regulations issued on its basis („Polish accounting standards"). The consolidated financial statements include adjustments not included in the accounting books of the Group's entities introduced in order to adjust the financial statements of these entities to comply with IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for i.e. investment properties and financial instruments that have been measured at fair value (i.e. for investment property, financial instruments measured at fair value).

Consolidated financial statements of the CCC S.A. Capital Group (hereinafter: the Capital Group or the Group) cover the year ended 31 December 2019 and provide comparative data for the period of 12 months ended 31 December 2018.

These consolidated financial statements were approved for publication by the Management Board on 6 March 2020.

These consolidated financial statements were prepared assuming that the Group will continue its business operations in a foreseeable future i.e. at least one year after the balance sheet date.

As at 31 December 2019, the consolidated statement of financial position of the Group shows current assets in the amount of PLN 2,933.2 million, including, among others: inventories in the amount of PLN 1,942.3 million, cash and cash equivalents in the amount of PLN 542.6 million, receivables in the amount of PLN 442.3 million and current liabilities in the amount of 2,958.3 mln PLN, which include, among others: debt from loans in the amount of PLN 830.4 million, trade liabilities and other in the amount of PLN 1,536.2 million and lease liabilities (IFRS 16) in the amount of PLN 557.2 million, which results in a surplus of current liabilities relative to current assets in the amount of PLN 25.1 mln PLN. This situation is largely due to the fact that the right of use is presented in the non-current part, whereas the lease liabilities are presented in a breakdown into the current and non-current part. Inventories are presented in the purchase price, whereas the value of inventories in the sale price would be higher by about PLN 2 billion at the current sales margins of over 50%.

Operations of the Group are mainly financed by long-term and short-term financial instruments, mostly loans, factoring (reverse) and bonds. Details concerning the structure of financing of the operations are presented in point 4.2 of the explanatory notes to these consolidated financial statements. According to these agreements, the Group is obliged to meet numerous requirements, including, but not limited to, timely servicing of debt and meeting certain financial ratios based on the Group's consolidated data in semi-annual periods, which were met as at 31 December 2019

The Management Board of the Parent Company prepared a financial forecast for the Group for 2020 as a part of its 3-year strategy (GO.22 – moving towards omnichannel) presented on 29 January 2020. These financial forecasts for 2020 have been prepared for each of the Group's business segments, i.e. offline, online and wholesale, with a breakdown by country in which the Group operates. The Management Board adopted numerous assumptions in the preparation of the projections, the most important of which concern:

1. sales increase through the opening of new stores, better sales marketing support and preparation of a much better offer than in previous years,
2. increase in gross sales margin through „cleaning up" of inventories and implementation of tools and processes to improve inventory management, allocation, logistics, purchasing and pricing strategy in the first half of 2019,
3. implementation of several initiatives defined within the GO.22 strategy concerning improvement of the Group's operations and costs,
4. decrease in investment expenditure in relation to previous years,
5. release of cash by optimizing inventory management processes,
6. continuation of cooperation with the existing institutions, financing the Group's operations by extending the financing of instruments due in 2020 at a level similar to the current one.

The aforementioned forecasts involve various risks. The most important include:

- issues related to the slower than assumed effect of the restructuring activities undertaken and the implementation of initiatives to optimize the Group's operations, as set out in the GO.22 strategy,
- the ongoing fashion trends,
- weather conditions,
- currency exchange rates,
- the reaction of financial institutions to possible shifts in the implementation of results in individual quarters of the year affecting the reported levels of margins and indicators and
- non-business factors, such as further spread of coronavirus, which is mentioned below.

Having considered the above assumptions and the risks related to their implementation, the Management Board has prepared the attached consolidated financial statements based on continuity of operations.

CORONAVIRUS

As of today the in terms of business and logistics, the Group is affected by coronavirus to limited extent. The spring-summer 2020 collection dispatches were made before Chinese New Year's Day, and only a small percentage is currently in transit from non-Chinese destinations and is fully secured in case of delivery difficulties. A small share of uncollected goods are summer goods, which will be available for sale later, and which the Group can transport by rail more quickly if necessary. Therefore, stock-up of stores for the next spring-summer season is guaranteed. The impact of coronavirus on consumers will be fully visible during and after the season.

However, there is uncertainty regarding consumer behaviour in terms of demand for consumer goods, including footwear. The Group is very cautious about consumer risk, as the Group's operations have not been affected by any similar epidemiological situation.

Currently, the Parent Company and the CCC Group do not need to send employees from the headquarters to China, therefore there is no negative impact on the interruption of flights in this direction. The Group communicates with business partners via video conferences. CCC is constantly monitoring the situation and stays in contact with suppliers to monitor the production schedule for the next Autumn-Winter 2020 season. Currently, the Parent Company and the As for the long-term the perspectives for the supply direction, CCC does not sees a need to move production from China to another country. Chinese producers have their strong specialization which are actually utilized. Nevertheless, having in the strategy to shorten delivery times and to reduce of stock levels, CCC has established and will continue to establish cooperation with producers from new countries and regions. Examples are producers located in Turkey, from where deliveries to CCC are already scheduled for the autumn season 2020.

CCC does not consider it necessary to relocate manufacturing to another country. China has its strong specializations which are utilized. The Procurement Department, with its strategy to shorten the time of delivery of goods and reduce the level of stocks, has established cooperation with many.

Preparation of financial statements in accordance with IFRS requires the use of certain significant accounting estimates. It also requires the Management Board to make its own assessments as part of applying the accounting policies adopted by the Group. Significant estimates of the Management Board are presented in individual notes.

FUNCTIONAL AND PRESENTATION CURRENCY OF THE COSOLIDATED FINANCIAL STATEMENTS

Items included in the financial statements of individual entities of the Group are measured in the currency of the primary economic environment in which the entity operates („functional currency"). The consolidated financial statements are presented in Polish Złoty (PLN), which is the functional currency of the parent company and the presentation currency of the Group.

ACCOUNTING PRINCIPLES APPLIED

With the beginning of 2019, the Group changed its inventory management system in order to: improve processes related to logistics, pricing policy, collection management and increase the efficiency of inventory management in the Group compared to the previous system. The new inventory management system enables valuation of inventories only at weighted average cost (AVCO) and therefore the Group had to replace the previous method, i.e. first in, first out (FIFO). In the opinion of the Management Board of the Group, the AVCO method is widely used in the commercial industry due to better presentation of cost of inventories, which provides better information for users of financial statements. The new system does not allow for converting the stock valuation according to the AVCO method for the previous reporting period, the Group is not able to present the impact of the system change as at 1 January 2018, 31 December 2018 or 31 December 2019 and for the years 2018 and 2019.

The Group has also changed the presentation of data in the consolidated statement of comprehensive income. The restatements presented below were made because in the Group's opinion, they better reflect the essence of the reclassified items.

Since January 2019, other operating costs and other operating income have been presented in a separate line instead of the net value. Moreover, inventory surplus/deficit is presented in net value in cost of goods sold instead of other operating costs/income.

Presentation adjustments are as follows (in PLN mln):

	CONTINUING OPERATIONS	DATA APPROVED	PRESENTATION ADJUSTMENTS	CONVERTED DATA
3.2	Cost of goods sold	(2 355,9)	(3,2)	(2 359,1)
3.3	Other operating costs and income	118,3	(118,3)	—
3.3	Other operating income	—	132,7	132,7
3.3	Other operating cost	—	(11,2)	(11,2)

As at 31 December 2018, the Group also distinguished assets and liabilities of the Group held for sale, which were presented under current assets and current liabilities respectively.

[in mln PLN unless otherwise stated]

Other accounting principles applied by the companies of the CCC S.A. Capital Group have not changed in relation to those used in the financial statements for the financial year from 1 January to 31 December 2018, except for the application of new or changed standards and interpretations applicable to annual periods beginning on 19 January 2019 or later. The following list presents accounting policies and major estimates and judgments for specific items in the financial result and financial position:

ADJUSTMENTS OF ERRORS FROM PREVIOUS YEARS

In the reporting period no adjustment of previous years were made.

NOTE	TITLE	ACCOUNTING POLICIES (Y/N)	CRITICAL ESTIMATES AND JUDGEMENTS (Y/N)	PAGE
3.1	Sales revenue	Y		25
3.2	Cost of goods sold	Y		26
3.2	Cost of operating stores	Y		26
3.2	Other cost of sale	Y		26
3.2	Administrative expenses	Y		26
5.4	Leasing	Y	Y	56
3.3	Other operating and financial income and costs	Y		29
3.4	Income tax	Y	Y	32
3.4	Deferred tax assets	Y	Y	36
3.4	Income tax liabilities	Y		36
4.1	Equity	Y	Y	39
4.2	Debt liabilities	Y		43
5.1	Intangible assets	Y	Y	49
5.3	Tangible fixed assets	Y	Y	53
5.3	Grants received	Y		54
5.5	Inventories	Y	Y	59
5.6	Loans granted	Y		61
5.6	Trade receivables	Y		61
5.6	Other receivables	Y		61
5.7	Cash and cash equivalents	Y		63
5.8	Trade and other liabilities	Y		63
5.8	Other liabilities	Y		63
5.9	Provisions	Y	Y	65
6.1	Financial instruments	Y	Y	67
6.4	Discontinued operations	Y	Y	91
6.6	Costs of the incentive program	Y	Y	96

APPLIED NEW AND AMENDED ACCOUNTING STANDARDS

IFRIC 23 INTERPRETATION: UNCERTAINTY OVER INCOME TAX TREATMENTS

The interpretation explains how to recognize and measure income tax in accordance with IAS 12 if there is uncertainty about its recognition. It does not apply to taxes or fees that are not covered by IAS 12, nor does it cover interest and penalty requirements related to the uncertain recognition of income tax. The interpretation applies in particular to:

- individual consideration of uncertain tax treatment by the entity;
- assumptions made by the entity regarding the control of tax treatment by tax authorities;
- the manner in which the entity determines taxable income (tax loss), the taxable amount, unused tax losses, unused tax credits and tax rates;
- the manner in which the entity reflects changes in facts and circumstances.

An entity must determine whether it considers each uncertain tax treatment separately or in combination with one or more other uncertain tax treatments. An approach should be followed which better provides for resolution of uncertainty. The interpretation has no material impact on the Group's consolidated financial statements.

AMENDMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

AMENDMENTS TO IAS 28: LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

CHANGES RESULTING FROM THE REVIEW OF IFRS 2015-2017

- IFRS 3 Business Combinations
- IFRS 11 Joint Arrangements
- IAS 12 Income tax
- IAS 23 Borrowing costs

The Group has not decided to early apply any standard, interpretation or amendment that has been published, but has not yet entered into force in the light of European Union legislation.

THE STANDARDS AND INTERPRETATIONS WHICH HAVE BEEN PUBLISHED BUT HAVE NOT YET ENTERED INTO FORCE AND HAVE NOT BEEN PREVIOUSLY APPLIED BY THE GROUP

The following are standards and interpretations that have been published by the International Accounting Standards Board, but have not yet entered into force. According to the Management Board's assessment, they would not have a significant impact on the financial statements if they were applied by the Group as at the balance sheet date.

- IFRS 14 Regulatory deferral accounts (published on 30 January 2014) – in accordance with the decision of the European Commission, the process of approving the standard in the initial version will not be initiated before the final version of the standard appears – until the date of approval of these financial statements, it has not been approved by the EU – applicable for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture (published on 11 September 2014) – work leading to the approval of these amendments has been deferred indefinitely by the EU – the entry into force has been deferred indefinitely by IASB;
- IFRS 17 Insurance Contracts (published on 18 May 2017) – up to the date of approval of these financial statements, not approved by the EU – applicable to annual periods beginning on or after 1 January 2021;
- Amendments to the Conceptual Framework References in the International Financial Reporting Standards (published on 29 March 2018) – applicable to annual periods beginning on or after 1 January 2020;
- Amendments to IFRS 3 Business Combinations (published on 22 October 2018) – up to the date of approval of these financial statements, not approved by the EU – applicable to annual periods beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8: Definition of material (published on 31 October 2018) – until the date of approval of these financial statements, not approved by the EU – applicable to annual periods beginning on or after 1 January 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform (published on 26 September 2019) – until the date of approval of these financial statements not approved by the EU – applicable to annual periods beginning on or after 1 January 2020 .

The dates of entry into force are the dates resulting from the content of the standards announced by the International Financial Reporting Council. The dates of application of standards in the European Union may differ from the dates of application resulting from the content of the standards and are announced at the time of approval for use by the European Union.

VALUATION OF AMOUNTS DENOMINATED IN FOREIGN CURRENCIES

The consolidated financial statements are presented in the PLN currency, which is the functional currency of the Parent Company and the presentation currency of the Group's consolidated financial statements.

Exchange rate gains and losses related to debt and cash and cash equivalents are recognized in profit or loss under „finance income or costs". All other exchange rate gains or losses are recognized in profit or loss under „other operating income" and „other operating costs".

The results and financial position of all entities of the Group whose functional currencies differ from the presentation currency are converted into the presentation currency as follows:

- assets and liabilities in each presented statement of financial position are translated at the closing rate as at that balance sheet date;
- revenues and expenses in each statement of comprehensive income are translated at average rates (unless the average rate is not a satisfactory approximation of the cumulative effect of exchange rates from transaction days – in which case income and expenses are translated at exchange rates from transaction days);
- any exchange rate differences are recognized in other comprehensive income and cumulatively as a separate component of equity.

Upon the disposal (including partial disposal) of an entity operating abroad, such foreign exchange differences are recognized in the income statement as part of the profit or loss arising upon disposal.

CONSOLIDATION

ACCOUNTING POLICY

The consolidated financial statements comprise the financial statements of CCC S.A. its subsidiaries.

The financial statements of subsidiaries, after taking into account the adjustments to comply with IFRS for entities that do not apply IFRS, are prepared for the same reporting period as the parent company's statement, using consistent and uniform accounting principles. Adjustments are made in order to eliminate any discrepancies in the accounting policies applied. In case the financial year of the subsidiaries differs from the financial year of the parent company, the financial statements of the subsidiaries are converted in order to calculate financial data for the reporting period of the parent company. Intragroup transactions and settlements as well as unrealized gains on transactions between group entities are eliminated.

Subsidiaries are all business entities over which the Group exercises control. Subsidiaries are subject to consolidation from the date of transfer of control to the Group. Consolidation ceases from the date such control ends.

The Group recognizes business combinations using the acquisition method. The payment transferred for the acquisition of the enterprise is the fair value of the transferred assets, liabilities incurred to the previous owners of the acquiree and the equity shares issued by the Group. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date. As at the acquisition date, the Group recognizes all non-controlling interests in the acquiree either at fair value or the value of a proportionate share (corresponding to the non-controlling interest) in the identifiable recognized net assets of the acquiree.

The surplus of the acquisition price and non-controlling interests over the fair value of the net assets acquired is goodwill.

Transaction costs are recognized in the financial result at the moment of incurring.

Changes in the ownership of the parent company that do not result in a loss of control over the subsidiary are recognized as equity transactions. In such cases, in order to reflect the changes in the subsidiary's relative shares, the Group adjusts the carrying amount of the controlling and non-controlling interests. Any differences between the amount of the adjustment of non-controlling interests and the fair value of the amount paid or received are charged to equity and attributed to the owners of the parent company.

[in mln PLN unless otherwise stated]

Subsidiaries (directly and indirectly) of CCC S.A. are presented in the table below:

SUBSIDIARIES OF CCC S.A.	HEADQUARTERS/COUNTRY	TYPE OF BUSINESS ACTIVITY	SHARES AS OF 31.12.2019	SHARES AS OF 31.12.2018
CCC Factory Sp. z o.o.	Polkowice, Poland	manufacturing	100%	100%
CCC Czech s.r.o.	Prague, Czech Republic	commercial	100%	100%
CCC Slovakia s.r.o.	Bratislava, Slovakia	commercial	100%	100%
CCC Hungary Shoes Kft.	Budapest, Hungary	commercial	100%	100%
CCC Austria Ges.m.g.H	Graz, Austria	commercial	100%	100%
CCC Obutev d.o.o.	Maribor, Slovenia	commercial	100%	100%
CCC Hrvatska d.o.o.	Zagreb, Croatia	commercial	100%	100%
CCC Germany G.m.b.h. [1]	Frankfurt, Germany	commercial	—	100%
CCC Shoes Ayakkabycylyk Limited Sirketi	Istanbul, Turkey	commercial	100%	100%
CCC Isle of Man [3]	Douglas, Isle of Man	service	50%	100%
CCC.eu sp. z o.o.	Polkowice, Poland	purchase and selling	100%	100%
CCC Shoes & Bags sp. z o.o.	Polkowice, Poland	investment	100%	100%
CCC Shoes Bulgaria EOOD	Sofia, Bulgaria	commercial	100%	100%
eobuwie S.A.	Zielona Góra, Poland	commercial	74,99%	74,99%
NG2 Suisse sarl	Zug, Switzeland	commercial	100%	100%
CCC Shoes & Bags d.o.o. Beograd	Belgrad, Serbia	commercial	100%	100%
eschuhe.de UG	Frankfurt on the Oder, Germany	commercial	74,99%	74,99%
Traf Logistics sp. z o.o.	Zielona Góra, Poland	logistic	74,99%	74,99%
CCC Russia OOO	Moscow, Russia	commercial	75%	75%
Shoe Express S.A.	Bocharest, Romania	commercial	100%	100%
Karl Voegele AG	Uznach, Switzerland	commercial	70%	70%
DeeZee Sp. z o.o.	Kraków, Poland	commercial	51%	51%
Gino Rossi S.A. [2]	Słupsk, Poland	commercial	100%	—

[1] CCC Germany G.m.b.h. data consolidated until 31.01.2019

[2] Gino Rossi S.A. data consolidated since 20.02.2019

[3] The shares in CCC Isle of Man have been acquired in 50% by a third party. The Management Board, after analyzing the functions performed by the shareholders of the company, stands on the position that the Group still has control over the company in the scope of its operations and in its management.

ASSOCIATES	HEADQUARTERS/COUNTRY	TYPE OF BUSINESS ACTIVITY	SHARES AS OF 31.12.2019	SHARES AS OF 31.12.2018
HR Group	Berlin, Germany	commercial	30,55%	—

During the financial year there were no organizational changes in the Capital Group.

2. SEGMENTS AND REVENUES FROM OPERATIONS

Operating segments and revenues from operations are presented in a manner consistent with internal reporting provided to the key operational decision-maker, on the basis of which he assesses results and decides on the allocation of resources. The Parent's Management Board is the main operational decision maker.

The Management Board analyzes the Group's operations from a geographical and product perspective:

- from a geographical perspective, the Management Board analyses the Group's operations in Poland, Central and Eastern Europe, Western Europe and other countries;
- from a product perspective, the Management Board analyses retail, e-commerce and wholesale operations in the above-mentioned geographical areas.

The Group identifies the following operating and reporting segments:

REPORTING SEGMENT	DESCRIPTION OF THE REPORTING SEGMENT'S OPERATIONS AND THE APPLIED MEASURES OF RESULT	PREMISES FOR AGGREGATION OF OPERATING SEGMENTS INTO REPORTING SEGMENTS, INCLUDING ECONOMIC CIRCUMSTANCES TAKEN INTO ACCOUNT IN ASSESSING THE SIMILARITY OF THE ECONOMIC CHARACTERISTICS OF THE OPERATING SEGMENTS
Distribution activities – retail in Poland. Stores operate in CCC, eObuwie and Gino Rossi chains. Distribution activities – retail in EU – Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Croatia, Slovenia, Bulgaria, Romania). Stores operate only in the CCC chain. Distribution activities – retail in EU Western Europe (Austria, Switzerland). Stores operate exclusively in the CCC and Voegele chains. Distribution activities – retail in other countries (Russia, Serbia). Stores operate in the CCC chain.	Each individual own store operating in these countries is an operating segment. The stores sell shoes, handbags, shoe care accessories, small clothing accessories in their own stores, within the chains: CCC, eobuwie, Gino Rossi and Karl Voegele. The result's measures are gross profit on sales calculated in relation to external sales and the segment's operating result constituting the difference between sales, cost of goods sold, direct costs of sales related to the functioning of the retail chain (costs of operating stores) and costs of organizational units supporting sales.	Financial information was aggregated for the CCC chain according to geographical markets because of: • Similarity of long-term average gross margins, • Similar character of goods (e.g. shoes, handbags, shoe care accessories, small clothing accessories), • A similar way of distributing goods, • Similar categories of customers (sales carried out in own units and directed towards retail customers).
Distribution activities e-commerce	The whole activity is conducted by the following companies: eobuwie.pl S.A., DeeZee Sp. z o.o., Karl Voegele AG, Gino Rossi S.A. and CCC S.A. dealing with distribution of goods via the Internet. Since 10.2019. The Group ceased e-commerce distribution activities in Karl Voegele AG. The Group sells footwear, shoe care bags, small clothing accessories etc. to domestic and foreign retail customers. The result's measures are gross profit on sales calculated in relation to external sales and the segment's operating result constituting the difference between sales, cost of goods sold, direct costs of sales related to the functioning of the sales channel (i.e. logistics costs)	
Distribution activities – wholesale	The whole activity is performed by CCC.eu, which distributes goods to the companies within the Group. The company sells footwear, handbags, shoe care accessories, small clothing accessories to foreign franchisees and other wholesale customers. The result's measures are gross profit on sales calculated in relation to external sales and the segment's operating result constituting the difference between sales, cost of goods sold, direct costs of sales related to the functioning of the distribution chain (i.e. logistics costs)	
Manufacturing activities	Manufacturing of women's leather shoes is carried out in Poland. The result's measure is segment's operating result constituting the difference between sales, cost of goods sold, direct costs of sales.	
Discontinued operations	CCC Germany chain stores and Simple chain stores disposed of before the balance sheet date.	

i MORE INFORMATION IN SECTION **1.3** (BUSINESS MODEL) IN REPORT ON THE OPERATIONS OF THE GROUP

[in mln PLN unless otherwise stated]

A reconciliation of the reporting segments and the consolidated financial statements is shown below:

31.12.2019	DISTRIBUTION ACTIVITY						MANUFACTURING	TOTAL	DISCONTINUED OPERATIONS
	RETAIL ACTIVITY				E-COMMERCE	WHOLESALE			
	POLAND	UE – CEE	UE – WESTERN EUROPE	OTHER COUNTRIES					
Total sales revenue	2 272,8	1 148,2	616,0	152,6	1 455,4	2 764,7	173,6	8 583,3	13,9
Revenue from sales to other segments	—	—	—	—	—	(2 566,0)	(172,6)	(2 738,6)	—
Revenue from sales from external customers	2 272,8	1 148,2	616,0	152,6	1 455,4	198,7	1,0	5 844,7	13,9
GROSS PROFIT ON SALES	1 128,1	647,3	367,9	75,7	615,1	55,5	(1,0)	2 888,6	2,5
Gross profit margin on sales (gross profit on sales/Revenue from sales from external customers)	49,6%	56,4%	59,7%	49,6%	42,3%	27,9%		49,4%	18,0%
Profit of segment	295,4	42,8	(115,0)	(17,5)	105,3	31,6	(0,9)	341,7	(19,8)
including share in profits (losses) of associates	—	—	(17,5)	—	—	—	—	(17,5)	—
Assets of segments									
Non-current assets except deferred tax asset and other financial assets	1 462,8	914,2	533,1	237,0	551,8	308,9	68,9	4 076,7	—
Deferred tax assets	9,9	0,8	—	—	44,9	8,3	3,5	67,4	—
Inventories	418,0	248,6	195,9	63,0	487,5	565,1	21,5	1 999,6	—
Outlays on tangible non-current assets and intangibles	647,0	276,7	94,0	49,7	429,0	141,1	68,9	1 706,4	—
Other revenue/costs:									
Amortization and depreciation	(276,2)	(195,1)	(145,9)	(29,3)	(13,0)	(1,5)	—	(660,9)	—
Impairment loss of tangible fixed assets and intangibles	—	—	(2,2)	—	—	—	—	(2,2)	—

[in mln PLN unless otherwise stated]

31.12.2018	DISTRIBUTION ACTIVITY						MANUFAC-TURING	TOTAL	DISCONTINUED OPERATIONS
	RETAIL ACTIVITY				E-COMMERCE	WHOLESALE			
	POLAND	UE – CEE	UE – WESTERN EUROPE	OTHER COUNTRIES					
Total sales revenue	2 060,1	1 035,4	430,8	112,7	977,3	2 435,7	227,6	7 279,6	217,8
Revenue from sales to other segments	—	—	—	—	—	(2 326,8)	(227,0)	(2 553,8)	—
Revenue from sales from external customers	2 060,1	1 035,4	430,8	112,7	977,3	108,9	0,6	4 725,8	217,8
GROSS PROFIT ON SALES	1 024,3	599,7	245,5	59,0	401,4	37,2	(0,4)	2 366,7	127,7
Gross profit margin on sales (gross profit on sales/Revenue from sales from external customers)	49,7%	57,9%	57,0%	52,4%	41,1%	34,2%	0,0%	50,1%	58,6%
Profit of segment	280,0	109,1	(72,5)	(2,3)	97,4	27,9	(0,4)	439,2	(85,7)
Assets of segments									
Non-current assets except deferred tax asset and other financial assets	1 223,8	852,5	724,6	133,4	412,9	84,8	71,4	3 503,4	494,8
Deferred tax assets	8,6	—	—	—	3,8	22,3	3,8	38,5	—
Inventories	302,6	199,8	206,2	49,3	305,3	746,5	41,1	1 850,8	—
Outlays on tangible non-current assets and intangibles	545,6	270,4	100,7	37,7	299,6	84,8	71,4	1 410,2	—
Other revenue/costs:									
Amortization and depreciation	(217,9)	(153,3)	(108,8)	(15,8)	(4,6)	(0,7)	(2,4)	(503,5)	(70,6)
Impairment loss of tangible fixed assets and intangibles	—	—	(9,5)	—	—	—	—	(9,5)	(54,3)

[in mln PLN unless otherwise stated]

	1.2019-12.2019			1.2018-12.2018		
	AGGREGATED SEGMENT DATA	CONSO-LIDATION ADJUSTMENTS	CONSOLIDATED FINANCIAL STATEMENT	AGGREGATED SEGMENT DATA	CONSO-LIDATION ADJUSTMENTS	CONSOLIDATED FINANCIAL STATEMENT
Total sales revenue	8 583,3	(2 738,6)	5 844,7	7 279,6	(2 553,8)	4 725,8
Sales revenue not allocated to the segment	—	—	—			
Sales revenue in the financial statement	—	—	5 844,7			4 725,8
Cost of goods sold in the financial statement	—	—	(2 956,2)			(2 359,1)
GROSS PROFIT ON SALES	2 888,6	—	2 888,6	2 366,7		2 366,7
Gross profit on sales not allocated to the segment	—		—			
Gross profit on sales in the financial statement	2 888,6		2 888,6			
Costs of sales related to segment operations	(2 529,4)	—	(2 529,4)	(1 927,5)		(1 927,5)
Share of net profit (loss) of associated entities	(17,5)	—	(17,5)			
RESULT ON SEGMENT	341,7	—	341,7	439,2		439,2
Not allocated costs of sale	—	—	—			
Administrative expenses	—	—	(236,7)			(188,2)
Other operating income and costs	—	—	10,6			121,5
Share of net profit (loss) of associates accounted for using the equity method	—	—	—			0,1
Finance income	—	—	143,3			3,7
Finance costs	—	—	(231,3)			(119,9)
Profit before tax	—	—	27,6			256,4
Assets of segments						
Non-current assets (except deferred tax asset and other financial assets)	4 076,7		4 076,7	3 489,2		3 489,2
Deferred tax assets	67,4	42,9	110,3	38,5	36,3	74,8
Inventories	1 999,6	(57,3)	1 942,3	1 850,8	(44,7)	1 806,1
Outlays on tangible non-current assets and intangibles	1 706,4		1 706,4	1 410,2	(4,1)	1 406,1
Other revenue/costs:						
Amortization and depreciation	(660,9)	(55,4)	(716,3)	(503,5)	(28,2)	(531,7)
Impairment loss of tangible non-current assets and intangibles	(2,2)		(2,2)	(9,5)	—	(9,5)

[in mln PLN unless otherwise stated]

	SALES REVENUE					
	31.12.2019			31.12.2018		
	OFFLINE	E-COMMERCE	TOTAL	OFFLINE	E-COMMERCE	TOTAL
Poland	2 272,9	568,8	2 841,7	2 060,1	399,8	2 459,9
Switzerland	480,7	16,5	497,2	290,2	19,7	309,9
Czech Republic	310,4	119,8	430,2	300,6	102,1	402,7
Hungary	243,8	137,5	381,3	240,5	79,9	320,4
Romania	240,5	174,2	414,7	203,2	101,6	304,8
Slovakia	182,3	73,3	255,6	170,9	48,3	219,2
Austria	135,4	—	135,4	140,6	—	140,6
Russia	119,9	—	119,9	88,7	—	88,7
Croatia	80,8	—	80,8	72,3	—	72,3
Slovenia	51,8	—	51,8	46,3	—	46,3
Serbia	32,7	—	32,7	24,0	—	24,0
Bulgaria	38,5	82,6	121,1	30,3	50,4	80,7
Greece	—	74,1	74,1	—	43,6	43,6
Germany	—	61,5	61,5	—	48,4	48,4
Other	199,7	147,1	346,8	80,8	83,5	164,3
Total	4 389,3	1 455,4	5 844,7	3 748,5	977,3	4 725,8

i MORE INFORMATION IN SECTION **5.1.1.1** (REVENUE, COGS AND GROSS PROFIT) + **5.1.1.2** (FIXED ASSETS) IN REPORT ON THE OPERATIONS OF THE GROUP

FIXED ASSETS (EXCEPT FINANCIAL INSTRUMENTS AND DEFERRED TAX)	1.2019-12.2019	1.2018-12.2018
Poland	1 840,7	1 365,3
Switzerland	323,0	358,3
Czech Republic	199,5	206,2
Hungary	196,1	202,4
Romania	213,7	200,2
Slovakia	107,5	109,5
Austria	210,1	365,9
Russia	169,3	76,0
Croatia	73,5	61,4
Slovenia	64,7	31,6
Serbia	67,6	57,4
Bulgaria	59,2	41,2
Other	0,0	0,9
e – commerce[1]	551,8	412,9
Total	4 076,7	3 489,2
Deferred tax	110,3	74,8
Other financial assets	23,5	10,1
Total assets	4 210,5	3 574,1

[1] e-commerce warehouse is located in Poland.

3. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

3.1 SALES REVENUE

ACCOUNTING POLICY

Sales revenue

IFRS 15 establishes the so-called The Five-Step Model for recognizing revenue resulting from contracts with clients.

In accordance with the above standard, revenue is recognized in the amount of remuneration that the entity is entitled in exchange for transferring the promised goods or services to the customer.

The company recognizes revenue at the time of transferring the goods to the customer in a value reflecting the price expected by the entity in exchange for the transfer of these goods and services.

Sales revenue comprises revenue from the sale of goods, products and services under a sublease obtained in the normal course of business.

Sales revenue is recognized at the fair value of the amount received or due from the sale of goods, finished goods and services in the ordinary course of the Group's business. Revenue is presented after deducting value added tax, returns, rebates and discounts, and after eliminating intragroup sales.

Revenue from sales of goods and products – wholesale

The Group sells footwear, handbags, shoe care accessories and small clothing accessories on the domestic and foreign wholesale market. Revenue from sales is recognized at the moment when control over the goods is transferred to the contractor.

The Group, within its subsidiaries, has all risks related to the aging of the goods and post-sales service for the retail customer, i.e. the Group is obliged to cover the costs incurred and accept the goods from the complaint handling. The rules of creating write-offs for complaints are presented in Note 5.9.

Revenue from sales of goods and products – retail sales

The Group sells footwear, handbags, shoe care accessories and small clothing accessories through its own chain of stores located in Poland and abroad. Revenue from sales is recognized when the goods are delivered to the customer in the store. Retail sales are usually made for cash or using payment cards. The Group accepts the customer's return policy within 7 days from the date of purchase. In order to estimate the volume of returns, the historical return ratio of goods to sales is used. Based on this estimation, the sales revenue is adjusted.

Revenue from sale of goods – e-commerce sales

The Group sells footwear, handbags, shoe care accessories and small clothing accessories through an online store operating in the local and foreign markets. Revenue from sales is recognized at the time of delivery to the courier and adjusted accordingly as at the balance sheet date taking into account the date of receipt of the delivery by the customer. The Group applies the customer's return policy within 30 days from the date of receipt of the order. In addition, at the balance sheet date the value of potential returns resulting from the consumer's right to return is also estimated.

The experience gained so far is used to estimate the volume of returns and create a write-off for them.

[in mln PLN unless otherwise stated]

Revenues from contracts with customers, broken down by categories, are as follows:

SALES REVENUE	01-12.2019	01-12.2018	CHANGE %
Shoes	3 714,1	3 265,1	13,8%
Bags	223,9	218,6	2,4%
Other	251,6	155,9	61,4%
Retail activities	4 189,6	3 639,6	15,1%
e–commerce	1 455,4	977,3	48,9%
Wholesale	199,7	108,9	83,4%
Total	5 844,7	4 725,8	23,7%

3.2 COSTS BY NATURE

ACCOUNTING POLICY

Cost of goods sold

As the cost of goods sold the Group recognizes:

- value of goods sold,
- value of the packaging released for sale,
- cost of provision for warranty repairs (note 5.9),
- the value of finished goods sold,
- impairments for inventories,
- write-offs for impairment of tangible and intangible assets used in the production of goods or providing services (depreciation of production machines), remuneration costs for production employees, other costs related to production.

i MORE INFORMATION IN SECTION **5.1.1.1** (COST OF OPERATING STORES) IN REPORT ON THE OPERATIONS OF THE GROUP

Cost of operating stores

Costs of operating stores include the costs of maintaining stores and other retail outlets. This item includes mainly:

- costs of remuneration of store employees,
- depreciation of tangible fixed assets (investments in stores),
- depreciation of assets under the right of use,
- costs of outsourced services (e.g. agent's remuneration, consumption of utilities),
- variable lease payments (sales-based rents).

Other costs of sales

Other costs of sales include costs of sales not directly related to the maintenance of stores, concerning organizational units supporting sales. This item includes mainly:

- costs of remuneration of employees of organizational units supporting sales,
- depreciation of tangible fixed assets,
- costs of outsourced services,
- other flat costs,
- low value and short-term leases.

Administrative expenses

Administrative expenses include costs related to the management of the Group's general business activities (general and administrative expenses) and the Group's overheads.

[in mln PLN unless otherwise stated]

NOTE	1.2019-12.2019	COST OF GOODS SOLD	COST OF OPERATING STORES	OTHER COST OF SALE	ADMINISTRATIVE EXPENSES	TOTAL
	Cost of purchase and manufacturing of goods sold	(2 685,3)	—	—	—	(2 685,3)
	including discontinued operations:	(9,2)	—	—	—	(9,2)
	Consumption of materials and energy	(176,8)	(67,9)	(36,6)	(14,0)	(295,3)
	including discontinued operation:	—	(0,5)	—	—	(0,5)
5.5	Write-down on inventories	(7,2)	—	—	—	(7,2)
	including discontinued operations:	(2,3)	—	—	—	(2,3)
	Remuneration and employee benefits	(66,3)	(566,3)	(235,9)	(75,6)	(944,1)
	including the reversal of the valuation of the employee program	—	—	—	12,2	12,2
	including discontinued operations:	—	(6,8)	(0,6)	(0,5)	(7,9)
	Costs of the incentive program	—	—	—	—	—
	Agency services	—	(5,9)	—	—	(5,9)
	Transportation services	(1,8)	(4,6)	(198,8)	(0,3)	(205,5)
	including discontinued operations:	—	(0,1)	—	(0,0)	(0,1)
	Lease costs[1]	(0,3)	(183,9)	(29,7)	(12,8)	(226,7)
	including discontinued operations:	—	(10,0)	(0,4)	(0,7)	(11,1)
	Other outsourcing services	(15,6)	(101,6)	(303,2)	(60,1)	(480,5)
	including discontinued operations:	—	(0,7)	(0,2)	(0,2)	(1,1)
	Amortization and depreciation	(4,9)	(647,2)	(32,6)	(31,6)	(716,3)
	Taxes and fees	(1,1)	(9,4)	(6,7)	(31,4)	(48,6)
	Other flat costs	(1,4)	(4,6)	(116,0)	(12,6)	(134,6)
	including discontinued operations:	—	(2,5)	(0,5)	(0,3)	(3,3)
	Change in products and production in progress	(6,9)	—	(0,8)	—	(7,7)
	Total	(2 967,6)	(1 591,4)	(960,3)	(238,4)	(5 757,7)
	including continuing operations:	*(2 956,1)*	*(1 570,8)*	*(958,6)*	*(236,7)*	*(5 722,2)*
	including discontinued operations:	*(11,5)*	*(20,6)*	*(1,7)*	*(1,7)*	*(35,5)*

[1] Covering variable fees (services, advertising and other costs).

The decrease in costs of agent services results from the acquisition of the Adler enterprise. The increase in other outsourcing services results from increased expenditures for marketing, logistics, maintenance, which is related to the scale effect and the acquisition of Gino Rossi S.A. (increase in the cost of other outsourcing services by PLN 16.0 million).

The increase in other flat costs results from increased expenditures on sponsorship. The increase in depreciation in administrative expenses was due to the amortization of expenditures in the amount of PLN 5.5 million and the recognition of depreciation of the subsidiary Karl Voegele AG of PLN 4.4 million.

The increase in other costs of sales in 2019 compared to 2018 results primarily from increased advertising, marketing, sponsorship, transport costs and expenses for employee benefits of administrative units supporting sales.

[in mln PLN unless otherwise stated]

NOTE	1.2018-12.2018	COST OF GOODS SOLD	COST OF OPERATING STORES	OTHER COST OF SALE	ADMINISTRATIVE EXPENSES	TOTAL
	Cost of purchase and manufacturing of goods sold	(2 231,3)	—	—	—	(2 231,3)
	including discontinued operations:	(90,1)	—	—	—	(90,1)
	Consumption of materials and energy	(161,1)	(68,9)	(29,0)	(9,5)	(268,5)
	including discontinued operations:	—	(6,1)	(0,3)	(0,1)	(6,6)
5.5	Write-down on inventories	(8,9)	(0,4)	—	—	(9,3)
	including discontinued operations:	—	—	—	—	—
	Remuneration and employee benefits	(48,0)	(509,1)	(176,3)	(64,6)	(798,0)
	including discontinued operations:	—	(68,1)	(9,8)	(4,2)	(82,1)
	Costs of the incentive program	—	—	—	(25,8)	(25,8)
	Agency services	—	(23,3)	—	(0,5)	(23,8)
	Transportation services	(1,6)	(1,9)	(139,5)	(0,2)	(143,2)
	Lease costs	—	(155,8)	(44,2)	(15,3)	(215,3)
	including discontinued operations:	—	(24,2)	(14,5)	(1,6)	(40,3)
	Other outsourcing services	(1,1)	(98,4)	(201,6)	(47,5)	(348,6)
	including discontinued operations:	—	(3,9)	(3,5)	(1,4)	(8,8)
	Amortization and depreciation	(2,4)	(563,2)	(22,2)	(14,6)	(602,4)
	including discontinued operations:	—	(70,6)	(0,2)	(0,3)	(71,1)
	Taxes and fees	(1,0)	(7,5)	(3,7)	(7,8)	(20,0)
	including discontinued operations:	—	(0,2)	—	—	(0,2)
	Other flat costs	(0,1)	(17,6)	(78,3)	(10,3)	(106,3)
	including discontinued operations:	—	(9,4)	(2,6)	(0,3)	(12,3)
	Change in products and production in progress	6,3	—	—	—	6,3
	Total	(2 449,2)	(1 446,1)	(694,8)	(196,1)	(4 786,2)
	including continuing operations:	*(2 359,1)*	*(1 263,7)*	*(663,8)*	*(188,2)*	*(4 474,8)*
	including discontinued operations:	*(90,1)*	*(182,4)*	*(31,0)*	*(7,9)*	*(311,4)*

[in mln PLN unless otherwise stated]

The following note presents the components of employee benefits:

EMPLOYEE BENEFITS	31.12.2019 [PLN]	31.12.2018 [PLN]
Remunerations	(773,9)	(655,8)
Social security costs	(140,3)	(128,5)
Retirement benefit costs	(1,4)	(0,2)
Other post-employment benefits	(0,3)	(0,3)
Other employee benefit costs	(28,0)	(13,2)
Costs of payments to employee capital plans (PPK)	(0,2)	—
Total	(944,1)	(798,0)

TOTAL COSTS OF EMPLOYEE BENEFITS, INCLUDING		
Items included in cost of goods sold	(70,9)	(48,0)
Items included in costs of operating stores	(560,2)	(509,1)
Items included in the other costs of sales	(235,9)	(176,3)
Items included in administrative expenses	(77,9)	(64,6)
Total	(944,1)	(798,0)

Other costs of employee benefits include, among others: costs of courses, health and safety benefits, benefits from the Social Security Fund and reversal of the valuation of the employee program.

3.3 OTHER OPERATING INCOME AND COSTS, FINANCE INCOME AND COSTS

ACCOUNTING POLICY

Other operating income and costs

Other operating income and costs include income and expenses from activities which are not the main operating activity of the entity, e.g. profits or losses from the disposal of tangible fixed assets, write-downs of receivables, penalties and fines, donations, grants, etc.

If a grant relates to a given cost item, then it is recognized as income in a manner commensurate with the costs that the grant is intended to compensate. If a subsidy concerns an asset component, then its fair value is recognized on the account of revenues of future periods and then gradually, by equal annual write-offs, recognized in profit or loss for the estimated period of use of the related asset component.

Finance income and costs

Finance income and costs resulting from the Group's financial activities include, i.e.: interest, commissions, gains and losses on exchange rate differences.

[in mln PLN unless otherwise stated]

NOTE	1.2019-12.2019	1.2018-12.2018
Total other costs		CONVERTED DATA
Loss on disposal of tangible non-current assets	(5,5)	—
including discontinued operations:	(5,5)	—
Impairment on fixed assets and intangible assets	(2,2)	(63,8)
including discontinued operations:	—	(54,3)
Provision establishment	(37,2)	(12,8)
including discontinued operations:	(31,6)	(11,7)
Discontinued investments	(2,9)	—
Interests and penalties[1]	(9,9)	—
Other operating cost	(12,2)	(1,2)
Including discontinued operations:	(0,2)	(0,6)
Loss on exchange rate differences on items other than debt	(1,6)	—
Total other operating costs	(71,5)	(77,8)
Including continuing operations:	(34,2)	(11,2)
Including discontinued operations:	(37,3)	(66,6)
Other operating income		
Profit on disposal of tangible non-current assets	3,5	18,3
including discontinued operations	—	0,4
Profit from exchange rate differences on items other than debt	—	5,5
Compensations	9,6	1,2
Subsidy of SFRDP remuneration	3,6	3,7
Gain on bargain purchase of Karl Voegele AG	—	104,4
Gain on bargain purchase of HR Group	—	—
Gain on sale of Simple	13,4	—
Including discontinued operation:	13,4	—
Grants	4,4	—
Other operating income	23,7	—
including discontinued operation:	—	—
Total other operating income	58,2	133,1
Including continuing operations:	44,8	132,7
Including discontinued operations:	13,4	0,4
Total other operating costs and income	(13,3)	55,3
Including continuing operations:	*10,6*	*121,5*
Iincluding discontinued operations:	*(23,9)*	*(66,2)*

[1] interests on civil law transactions tax calculated as a result of a post-control decision.

An estimate of the negative fair value of CCC Germany for both 2019 and 2018 is presented under the provisions made.

The profit (loss) on the disposal of tangible fixed assets includes the result on fit-out sales.

In the current year the presentation of net inventory losses was changed so that the amount was included in the cost of sales and production. For the year ended 31 December 2019, this was PLN 7.2 million and in the comparative period it was PLN 3.2 million. A detailed description of the changes in presentation is provided in chapter „General Information".

[in mln PLN unless otherwise stated]

NOTE	1.2019-12.2019	1.2018-12.2018
Finance costs		
Interest on borrowings and bonds	(41,4)	(29,5)
Interest on leasing	(36,2)	(32,7)
including discontinued operations:	(0,2)	(5,2)
Result on exchange rates	(15,0)	(30,1)
Commissions paid	(3,6)	(4,1)
Valuation of the option to redeem non-controlling interests	(1,7)	(26,7)
Valuation of options to acquire shares in HR Group	(134,4)	—
Other finance cost	(0,9)	(2,0)
Finance costs	(231,5)	(125,1)
including continuing operations:	(231,3)	(119,9)
including discontinued operations:	(0,2)	(5,2)
Finance income		
Interest from current account and other	1,6	1,3
Income from interest on loan granted to HR Group	6,0	—
Result on exchange rates	22,1	1,3
including discontinued operations:	0,1	—
Other finance income	5,4	1,1
Valuation of the option to redeem non-controlling interests	108,3	—
Finance income	143,4	3,7
including continuing operations:	143,3	3,7
including discontinued operations:	0,1	—

i MORE INFORMATION IN SECTION **5.1.1.1** (FINANCIAL INCOME AND COSTS) IN REPORT ON THE OPERATIONS OF THE GROUP

3.4 TAXATION

Regulations on the value added tax, corporate income tax and social security charges are subject to frequent changes. These frequent changes result in the lack of appropriate benchmarks, inconsistent interpretations and few established precedents that could apply. The current legislation also contains ambiguities which result in differences in opinion on the legal interpretation of tax rules, both between state authorities and between state authorities and businesses as well.

Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be subject to control by authorities that have the power to impose heavy fines and penalties, and any additional tax liabilities arising from the control must be paid along with high interest. Such conditions make the tax risk in Poland higher than in countries with a more mature tax system.

As a result, the amounts presented and disclosed in the financial statements may change in the future as a consequence of a final decision of the tax inspection authority.

As of 15 July 2016, the Tax Code was amended to take into account the provisions of the General Anti-Abuse Rule (GAAR). GAAR's aim is to prevent the establishment and use of artificial legal structures created to avoid payment of tax in Poland.

GAAR defines tax avoidance as an activity carried out primarily for the purpose of obtaining a tax advantage, contrary to the object and purpose of the provisions of the Tax Act in the circumstances. According to GAAR, such an activity does not result in a tax advantage if the method of operation was artificial. Any occurrence of (i) unjustified dividing of operations, (ii) engaging intermediary entities in the absence of economic or economic justification, (iii) mutually eliminating or compensating elements, and (iv) other activities with a similar effect to those previously mentioned may be treated as a prerequisite for the existence of artificial activities subject to GAAR regulations. The new regulations shall require much greater judgment in assessing the tax consequences of individual transactions.

The GAAR clause should be applied to transactions made after its entry into force and to transactions that were carried out prior to the entry into force of the GAAR clause, but for which benefits were or are still being achieved after the date of entry into force of the clause. The implementation of the aforementioned provisions shall enable the Polish tax inspection authorities to question the legal arrangements and arrangements made by legal taxpayers, such as the restructuring and reorganization of the group.

The Group recognizes and measures current and deferred income tax assets or liabilities, applying the requirements of IAS 12 Income tax based on profit (tax loss), tax base, unsettled tax losses, unused tax credits and tax rates, including uncertainty assessments related to tax settlements.

When there is uncertainty whether and to what extent the tax authority shall accept individual tax settlements of the transaction, the Group recognizes these settlements taking into account the uncertainty assessment. The above risk estimates are subject to assessment by the Management Board.

ACCOUNTING POLICY

The obligatory burdens of result include current tax (CIT) and deferred tax.

Current tax is calculated on the basis of the tax result in a given reporting period in countries where the Company and its subsidiaries operate and generate taxable income based on the rates in force in the country. Changes in estimates relating to previous years are recognized as an adjustment to the burden for the current year.

Uncertainty related to recognition of income tax

If, in the opinion of the Group, it is probable that the Group's approach to a tax issue or a group of tax issues will be accepted by the tax authority, the Group determines: the income to be taxed (tax loss), tax base, unused tax losses, unused tax relieves and tax rates, taking into account the approach to taxation planned or applied in its tax return. Assessing this probability, the Group assumes that the tax authorities entitled to control and question the tax treatment will carry out such control and will have access to all information.

If the Group determines that it is unlikely that the tax authority will accept the Group's approach to a tax issue or a group of tax issues, then the Group reflects the results of uncertainty in the accounting treatment of the tax in the period of establishment. The Group includes the income tax liability using one of the two methods listed below, depending on which of them better reflects the manner in which the uncertainty may occur:

- The Group determines the most probable scenario – it is a single amount among possible results or
- The Group recognises the expected value – this is the sum of the probability-weighted amounts among the possible results.

Deferred tax assets and liabilities are recognised as a result of differences between the carrying amount of assets and liabilities and the corresponding tax values, and on unsettled tax losses. Such differences arise in the Group when depreciation is applied differently for accounting and tax purposes, when assets (which for tax purposes will be realised in the form of tax depreciation write-offs in future periods) or provisions created for accounting purposes (which for tax purposes will be recognised when the relevant costs are incurred) are booked.

The recognition excludes differences (other than acquisition transactions) related to the initial recognition of an asset or liability that affects neither the result nor the taxable profit (loss) at the time of recognition of the asset.

Temporary differences also arise on intra-group acquisitions and internal reorganisations. In the case of third-party acquisitions, temporary differences arise from the fair value measurement of assets and liabilities without affecting the tax bases of those assets and liabilities – the deferred tax liability or assets arising from those differences adjust goodwill (gain on an occasional acquisition). In the case of intragroup reorganisations, deferred tax assets or liabilities arise from the recognition or change in the value of assets or liabilities for tax purposes (e.g. a trademark) without their corresponding recognition in the balance sheet due to the elimination of the result on intragroup transactions – the effects of the recognition of related deferred tax assets and liabilities are recognised in profit or loss unless the related transactions have affected other comprehensive income or capital. Positive temporary differences on goodwill are excluded from recognition, however, if the tax value of goodwill arising from a transaction is higher than its book value, deferred tax assets are recognised at the time of initial recognition of goodwill if it is probable that taxable profit will be achieved enabling the realisation of this negative temporary difference.

Deferred tax assets and liabilities are calculated using the applicable (or virtually applicable) tax rates. Deferred tax assets and liabilities are offset within individual companies of the Group, which are entitled to settle current tax in the net amount.

Deferred tax assets are recognised up to the amount in which it is probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilised, or when positive temporary differences are expected to be realised concurrently. Any amount exceeding this value is only subject to disclosure.

The Group carefully evaluates the nature and extent of the evidence supporting the conclusion that it is probable that future taxable profit will be sufficient to allow for the deduction of unused tax losses, unused tax credits or other negative temporary differences.

When assessing whether it is probable that future taxable profit will be achieved (probability above 50%), the Group takes into account all available evidence, including supporting evidence that it is probable or not.

[in mln PLN unless otherwise stated]

A. AMOUNTS OF INCOME TAX RECOGNIZED IN THE INCOME STATEMENTS AND STATEMENTS OF CASH FLOWS

NOTE		1.2019-12.2019	1.2018-12.2018
	Current tax	(42,1)	(45,2)
	including discontinued operations:	—	(1,8)
5.3.c	Deferred tax	32,3	10,5
	including discontinued operations:	(0,6)	—
5.3.b	Income tax recognized in income statement	(9,8)	(34,7)
	including discontinued operations:	(0,6)	(1,8)
	Current tax recognized in the result	42,1	45,2
	including discontinued operations:	—	(1,8)
	Balance of liabilities /(receivables) at beginning of period	22,2	0,8
	Balance of receivables / (liabilities) at the end of the period	(11,4)	(22,2)
	Other changes	(5,6)	(0,1)
	Tax paid recognized in statement of cash flows	47,3	23,7
	including discontinued operations:	—	(0,1)

B. INFORMATION ON APPLIED TAX RATES AND RECONCILIATION FOR CHARGING THE RESULT

The table below shows the countries in which the Group achieves the highest income tax with an indication of the tax rate corresponding to the relevant jurisdiction:

	2019	2018
Poland	19%	19%
Czech Republic	19%	19%
Hungary	10%	10%
Slovakia	22%	22%
Other countries	8,47% - 25%	8,47% - 25%
Weighted average income tax rate	16,47%	17,99%

[in mln PLN unless otherwise stated]

Income tax on profit before tax of the Group differs from the theoretical amount that would have been obtained using the weighted average tax rate applicable to consolidated profits of the companies:

	1.2019-12.2019	1.2018-12.2018
Profit (loss) before tax	(17,9)	91,4
including profit (loss) from continuing operations	27,6	256,4
including losses from discontinued operations	(45,5)	(165,0)
Weighted average tax rate	16,47%	17,99%
Tax calculated according to weighted average tax rate	2,9	(16,4)
Tax effects of the following items:		
• non-taxable income	16,5	18,8
• non-tax-deductible expenses	(24,1)	(26,8)
• gain on disposal od Simple	2,2	—
• tax losses in respect of which deferred tax assets were not recognized	(8,9)	(8,2)
• other adjustments	1,6	(2,1)
Charging financial result on income tax	(9,8)	(34,7)
including continuing operations	(9,2)	(32,9)
including discontinued operations	(0,6)	(1,8)

The main item of non-tax revenue in 2019 was revenue related to the valuation of options to acquire non-controlling interests in eobuwie.pl S.A. and Karl Voegele AG (tax effect of PLN 14.7 million) and profit on bargain purchase of HR Group (tax effect of PLN 3.7 million).

Non-deductible expenses in 2019 include costs of valuation of options to acquire non-controlling interests in HR Group (tax effect of PLN 14.7 million) in the amount of PLN 18.6 million and impairment loss in the total amount of PLN 5.5 million.

Non-deductible costs in 2018 include mainly costs of valuation of the employee program, impairment loss and valuation of options to acquire subsidiaries.

The non-deductible costs in 2018 mainly include the costs of valuation of the employee program, impairment loss and valuation of options to acquire subsidiaries.

[in mln PLN unless otherwise stated]

C.
BALANCE AND CHANGES OF DEFERRED TAX

The change in deferred tax assets and liabilities during the year are presented as follows:

NOTE		31.12.2019	CREDITING TO / (CHARGING) FINANCIAL RESULT	31.12.2018	CREDITING TO / (CHARGING) FINANCIAL RESULT	01.01.2018
	Assets					
5.1	Trademarks	20,5	(3,1)	23,6	(4,1)	27,7
	Inventories – adjustment of margin on intragroup sale	10,8	2,3	8,5	1,5	7,0
	Impairment of assets	3,8	0,1	3,7	1,2	2,5
	Provisions for liabilities	26,6	14,2	12,4	4,8	7,6
	Special economical zone relief	39,1	36,5	2,6	2,6	—
	Other	5,0	(0,8)	5,8	(2,5)	8,3
	Tax losses	17,9	(10,3)	28,2	12,4	15,8
	Leasing valuation	10,4	7,1	3,3	3,3	—
	Total before offsetting	134,1	46,0	88,1	19,2	68,9
	Liabilities					
	Accelerated tax depreciation of tangible fixed assets	13,6	4,0	9,6	5,1	4,5
	Other	7,9	3,3	4,6	1,9	2,7
	Purchase of intangible assets revealed during aquisition of subsidiaries	39,7	6,4	33,3	1,6	31,7
	Total before offsetting	61,2	13,7	47,5	8,6	38,9
	Offsetting	23,8	10,5	13,3	7,6	5,7
	Balance of deferred tax in the balance sheet:					
	Assets	110,3	35,5	74,8	8,2	66,5
	Liabilities	37,4	3,2	34,2	1,0	33,2

[in mln PLN unless otherwise stated]

D. SIGNIFICANT ESTIMATES OF THE RECOGNITION OF DEFERRED TAX ASSETS AND INFORMATION ABOUT UNRECOGNIZED DEFERRED TAX ASSETS

The realization and reversal of temporary differences requires the Management Board to make significant estimates in respect of the anticipated taxable results of individual Group entities. The recognition of deferred tax assets in excess of recognized deferred tax liabilities reflects the fact that it is possible that the Group will be able to realize the economic benefits arising from the amortization and trademarks:

The Group recognized an asset on account of income tax on tax losses for the Companies: CCC.eu sp. z o.o. with its registered office in Poland and Karl Voegele AG with its registered office in Switzerland. The value of the asset as at the balance sheet date was reduced from PLN 28.2 million to PLN 17.9 million. According to the legal regulations in both countries, the right to deduct a tax loss from income in subsequent years may not exceed 50% of the amount of that loss in one year and is entitled to companies in 5 subsequent tax years.

CCC S.A. Capital Group estimates that the deduction of the loss will take place within the legally permissible time. Income tax of the companies, based on forecasts, is estimated as appropriate for the full deduction of losses. The Group conducts a number of activities aimed at increasing both the balance sheet result and the tax result of the companies, taking care of the development of the companies of the Group through the analyzed expansion, increasing the income per square meter of the floor space, reducing the costs of operating activities. According to the published strategy for the next 3 years, it should be expected that both revenues and costs will be generated at the projected levels. Nevertheless, the Group analyzes possible scenarios to be realized in the future and takes a cautious approach to recognizing deferred income tax assets on tax loss. Having regard to the uncertainty of future results this year, the asset was reduced by PLN 10.3 million. This reduction concerns CCC.eu sp. z o.o.

The table below shows the periods in which the realization of recognized deferred tax assets and liabilities is estimated:

PERIOD OF REALIZATION OF ASSETS AND LIABILITIES DUE TO DEFERRED TAX	31.12.2019		31.12.2018	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
up to 1 year	38,8	8,0	33,0	5,6
1-2 years	12,4	2,0	22,0	2,0
2-3 years	10,4	2,0	6,9	2,0
3-5 years	21,2	4,9	8,4	4,0
Over 5 years	27,5	20,5	4,5	20,6
Total	110,3	37,4	74,8	34,2
Unrecognized	28,2	—	17,9	—
• Relating to goodwill	—	—	—	—
• Relating to tax losses	28,2	—	17,9	—

The Management Board of CCC S.A. estimated the recoverability of this deferred tax asset due to tax losses in previous years. The subject of the assessment was primarily an analysis of the tax profit generated on the basis of historical data and an analysis of the forecast of the development of companies in the CCC S.A. Capital Group. As a result of the assessment of the possibility for using the tax loss in the companies of the Capital Group CCC S.A.: Karl Voegele AG, Gino Rossi S.A. and CCC.eu sp. z o.o. the Management Board decided not to recognize the deferred tax asset for tax losses incurred in previous years by the aforementioned companies. The value of unrecognized assets as at the balance sheet date amounts to 28.2 million PLN, including: Karl Voegele AG – 9.0 million PLN, Gino Rossi – 7.8 million PLN and CCC.eu sp. z o.o. – PLN 11.4 million.

In 2018 and 2019 the Group, indirectly through eobuwie.pl Logistics Sp. z o.o., incurred capital expenditure on the construction of a logistics centre located in the Kostrzyn--Słubice Special Economic Zone. On the basis of the decision on support No. 01/2018 of 15 October 2018 issued by the Minister of Entrepreneurship and Technology, the Group benefits from regional incentive in the form of corporate income tax relief. The decision on support was issued for a limited period of time, i.e. 15 years following the date of its issue. The amount of the rekief is equal to 35% of eligible investment costs, with the maximum amount of eligible investment costs specified in the above-mentioned decision at the level of PLN 184.6 million. Under the aforementioned decision, obtaining the zone relief is conditional on meeting the following factors:

- incurring eligible investment costs of the total value of at least PLN 142.0 million,
- increasing the average annual employment of at least 125 new workers by 31 December 2020 and maintaining a total of at least 259,8 employees until 31 December 2025.
- the date of completion of the new investment, after which investment costs cannot be considered eligible, shall be 31 December 2020.

Having met the requirements for capital expenditures as at 31.12.2019, a deferred tax asset was recognized for the zone relief in the amount of PLN 37 million.

4. DEBT, CAPITAL AND LIQUIDITY MANAGEMENT

4.1 CAPITAL MANAGEMENT

The Group's objective in capital risk management is to secure Group's ability to continue its operations so that it can generate return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce its cost.

In accordance with the Group's policy, the dividend is possible in the amount from 33% to 66% of consolidated net profit of CCC Capital Group, assigned to the shareholders of the dominant unit, with the assumption, that the ratio of net debt to EBITDA at the end of the financial year, to which the division of the profit will pertain, will be below 3.0.

Detailed information on the dividend policy is described in Report on the operations of the Group section 7.2.

To maintain or adjust the capital structure, the Group may adjust the amount of dividends declared to be paid to shareholders, return capital to shareholders, issue new shares or sell assets in order to reduce debt.

4.1.1 EQUITY

ACCOUNTING POLICY

Equity is recognized in the accounting books by type and in accordance with legal regulations and the provisions of the Articles of Association.

Types of equity:

- basic capital (share) of the Parent Company is recognized in the value specified in the Articles of Association and entered in the court register,
- capital reserves arising from the issuing shares above the par
- retained earnings created from the dividing of financial result, undivided financial result and profit (loss) for the period covered by the financial statements and also based on launched stock option scheme for employees

Dividend payments to shareholders of the Parent Company are recognized as a liability in the Company's financial statements in the period in which they were approved by shareholders of the Parent Company.

SHARE CAPITAL

As at 31 December 2019, the equity capital of Parent Company consisted of 41,16 million shares (as at 31 December 2018 it consisted of 41,16 million shares) with a nominal value of PLN 0,10 each, including 34,51 million ordinary shares and 6,65 million voting preference shares.

As at 31 December 2019, the share capital amounted to PLN 4.1 million. As at the balance sheet date, the share capital was fully paid and registered.

Shareholders have the pre-emptive right to acquire registered preference shares intended for sale.

The entity with a significant influence on the Parent Company is ULTRO sarl, a Luxembourg-based company, holding 27.33% of shares in the Company's share capital and 34.95% of total votes. This entity is dependent on Dariusz Miłek, Chairman of the Supervisory Board of CCC S.A. Other information concerning the shareholders was included in the Statements on operations of the Group

CAPITAL RESERVES ARISING FROM THE ISSUING SHARES ABOVE THE PAR VALUE

Capital reserves mainly include capital arising from issuing shares above the par value and the settlement of share-based employee benefit plans settled in equity instruments.

As at 31 December 2019, the value of reserve capital amounted to PLN 645.1 million.

RETAINED EARNINGS

Retained earnings include: retained earnings from previous years (including amounts transferred to capital reserves in accordance with the requirements of the Code of Commercial Companies) and net profit of the fiscal year.

EARNINGS PER SHARE

Basic profit per share is calculated by dividing net profit for the period attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares issued during the period.

Diluted profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of issued ordinary shares remaining during the period adjusted by the weighted average number of ordinary shares that would be issued upon conversion into ordinary shares from all diluting equity instruments.

[in mln PLN unless otherwise stated]

In the financial year, a basic and diluted loss per share amounted to PLN 0.66, including a profit of PLN 0.45 on continued operations and a loss of PLN – 1.11 on discontinued operations.

In 2018 basic and diluted earnings per share amounted to 1.38 PLN, including a profit of 5.43 PLN from continued operations and a loss of – 4.05 PLN from discontinued operations. The existence of series A subscription warrants granted under the incentive program has no significant impact on the calculation of diluted earnings per share. (More information is presented in note 6.6.).

EARNINGS PER SHARE	AS OF 31.12.2019	AS OF 31.12.2018
Basic profit (loss) per share from continuing operations (in PLN)	0,45	5,43
Attributable to shareholders of the parent company	0,45	5,49
Attributable to non-controlling interest	—	(0,06)
Diluted profit (loss) per share from continuing operations (in PLN)	0,45	5,42
Attributable to shareholders of the parent company	0,45	5,49
Attributable to non-controlling interest	—	(0,06)
Basic earnings (loss) per share from discontinued operations (in PLN)	(1,11)	(4,05)
Assigned to shareholders of the parent company	(1,11)	(4,05)
Assigned to non-controlling interests	—	—
Diluted profit (loss) per share from discontinued operations (in PLN)	(1,11)	(4,05)
Attributable to shareholders of the parent company	(1,11)	(4,05)
Attributable to non-controlling interest	—	—
Weighted average number of ordinary shares	41 168 000	41 164 000

DIVIDEND

On 18 June 2019 the Ordinary General Meeting of Sharehol-ders of CCC S.A. passed the resolution No. 6/ZWZA/2019 regarding allocation of part of the capital reserves in the amount of PLN 19,76 million to be distributed among shareholders by dividend payment. The Ordinary General Meeting appointed 17 September 2019 as the date according to which the list of shareholders entitled to a dividend for the financial year 2018 is made (dividend day), and the day 1 October 2019 as the dividend payment date. As of the date of approving the resolution: one share of CCC S.A. amounts to a dividend amount of 0.48 PLN, the number of shares of CCC S.A. entitled to the dividend amounts to 41,168,000.

On 22 June 2018 the Ordinary General Meeting of Sharehol-ders of CCC S.A. passed the resolution regarding allocation of part of the capital reserves in the amount of PLN 94,677,200 to be distributed among shareholders by dividend payment. The Ordinary General Meeting appointed 19 September 2018 as the date according to which the list of shareholders entitled to a dividend for the financial year 2018 is made (dividend day), and the day 1 October 2018 as the dividend payment date. As of the date of approving the resolution: one share of CCC S.A. amounts to a dividend amount of 2.30 PLN, the number of shares of CCC S.A. entitled to the dividend amounts to 41,164,000.

[in mln PLN unless otherwise stated]

SUBSIDIARIES WHERE NON-CONTROLLING INTERESTS ARE MATERIAL

The financial information on subsidiaries with non-controlling interests that are material to the Group is as follows:

Ownership interest held by non-controlling interests:

NON-CONTROLLING INTERESTS			
COMPANY NAME	BUSINESS LOCATION	01.2019-12.2019	01.2018-12.2018
CCC Russia sp. z o.o.	Russia	25,00%	25,00%
Group eobuwie.pl	Poland	25,01%	25,01%
DeeZee Sp. z o.o.	Poland	49,00%	49,00%
Karl Voegele AG	Switzerland	30,00%	30,00%
CCC Isle of Man	Isle of Man	50,00%	0,00%

STATEMENT OF COMPREHENSIVE INCOME	CCC RUSSIA SP. Z O.O		GROUP EOBUWIE.PL		DEEZEE SP. Z O.O.		KARL VOEGELE AG		ISLE OF MAN	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Sales revenue	119,9	88,7	1 431,7	982,2	38,0	4,8	494,0	309,9	12,4	nd
Cost of goods sold	(62,6)	(42,6)	(830,2)	(590,2)	(22,7)	(3,2)	(200,7)	(136,9)	—	nd
Gross profit (loss) on sales	57,3	46,1	601,5	392,0	15,3	1,7	293,2	173,0	12,4	nd
Cost of operating stores	(63,4)	(47,7)	(30,0)	(13,3)	—	—	(267,5)	(152,6)	—	nd
Other cost of sale	(1,7)	—	(471,1)	(286,0)	(14,5)	(2,2)	(79,2)	(51,3)	—	nd
Administrative expenses	(7,9)	(5,3)	(34,0)	(21,7)	(3,3)	(0,7)	(31,7)	(5,0)	(10,8)	nd
Other cost and revenue	0,1	(0,1)	(0,4)	2,3	—	—	1,3	1,5	(0,8)	nd
Profit (loss) on operating activity	(15,6)	(7,0)	65,9	73,3	(2,5)	(1,3)	(83,8)	(34,4)	0,8	nd
Finance income	9,9	9,0	0,8	0,3	—	—	0,5	0,1	—	nd
Finance costs	(3,1)	(23,6)	(7,3)	(2,6)	—	—	(3,6)	(0,8)	(0,1)	nd
Profit (loss) before tax	(8,8)	(21,6)	59,5	71,0	(2,5)	(1,3)	(86,9)	(34,9)	0,7	nd
Income tax	(0,1)	(0,4)	26,9	(14,9)	—	—	—	0,1	—	nd
Net profit	(8,9)	(22,0)	86,4	56,1	(2,5)	(1,3)	(86,9)	(34,8)	0,7	nd
Total comprehensive income	(8,9)	(22,0)	86,4	56,1	(2,5)	(1,3)	(85,3)	(34,8)	1,3	nd
Attributable to non-controlling interests	(2,1)	(5,5)	21,6	14,0	(1,2)	(0,6)	(26,1)	(10,4)	0,4	nd
Dividends paid to non-controlling interests	—	—	4,2	—	—	—	—	—	—	—

[in mln PLN unless otherwise stated]

CONDENSED STATEMENT OF FINANCIAL POSITION

INTERIM STATEMENT OF FINANCIAL POSITION	CCC RUSSIA SP. Z O.O		GROUP EOBUWIE.PL		DEEZEE SP. Z O.O.		KARL VOEGELE AG		ISLE OF MAN	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Non-current assets	39,2	29,0	324,1	133,9	7,4	9,0	100,0	99,6	—	nd
Current assets	66,9	47,8	675,8	412,1	18,0	10,0	208,6	160,9	15,3	nd
Non-current liabilities	0,6	0,2	174,5	38,1	—	—	110,3	122,5	—	nd
Current liabilities	130,9	90,9	570,5	322,3	10,0	7,2	235,9	90,2	1,5	nd
Equity	(25,5)	(14,4)	254,8	185,6	15,4	11,9	(37,6)	47,7	13,9	nd

4.2 DEBT

ACCOUNTING POLICY

Debt liabilities cover mainly bank loans and issued bonds. Debt liabilities are recognized, initially at fair value less transaction costs related to obtaining financing.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest rate. Financial costs are recognized in the financial result in financial costs except for costs that relate to the financing of production of fixed assets (according to the policy in note 5.3).

Cash flows relating to financial liabilities may change as a result of a modification of contractual terms and conditions or expectations regarding estimated cash flows for the purposes of valuation of financial liabilities at amortized cost.

A) Change in contractual conditions

In the event of a change in the contractual terms of a financial liability, the Group analyzes whether the modification of cash flows was material or not. The Group applies both quantitative and qualitative criteria in order to identify a significant modification leading to the discontinuation of recognition of an existing financial liability.

The Group considers a significant modification to be a change in the discounted current value of cash flows resulting from new conditions, including any payments made, less payments received and discounted using the original effective interest rate, by no less than 10% from the discounted current value of other cash flows under the original financial liability.

Regardless of the quantitative criterion, the modification is considered material in the following cases:

(a) a currency conversion of a financial liability, unless the terms of the contract provide otherwise,

(b) the replacement of a creditor,

(c) a significant extension of the financing period from the original financing period,

(d) a change in the interest rate from variable to fixed and vice versa,

(e) a change in the legal form/type of the financial instrument.

A significant modification of a financial liability is recognized by the Group as expiry of the original financial liability and recognition of a new financial liability.

In the event of a modification of the contractual terms of a financial liability that does not result in the discontinuation of the recognition of the existing liability, profit or loss is recognized immediately in profit or loss. The profit or loss is calculated as the difference between the present value of the modified and original cash flows, discounted using the original effective interest rate of the liability.

B) Change in expected cash flows

In case of financial liabilities with a variable rate, a periodic revaluation of cash flows to reflect changes in market interest rates, results in a change in the effective interest rate.

If the Group changes the estimates of payments under a financial liability (except for changes in contractual cash flows), the carrying amount of the financial liability is adjusted so that it reflects actual and changed estimated contractual cash flows. The Group determines the carrying amount of a financial liability at amortized cost as the present value of estimated future contractual cash flows, which are discounted at the financial instrument's original effective interest rate. The difference in valuation is recognized as income or costs in the financial result.

[in mln PLN unless otherwise stated]

NOTE	CREDIT LIABILITIES			BOND LIABILITIES	TOTAL
	NON-CURRENT	CURRENT	IN CURRENT ACCOUNT		
As of 01.01.2018	226,0	—	481,1	210,0	917,1
Proceeds from debt contracted	—	—	—	—	—
– financing received	—	—	—	210,0	210,0
– transactional cost	—	0,7	1,6	—	2,3
Charging interest	—	4,5	14,4	6,8	25,7
Debt payment	—	—	—	—	—
– repayment of capital	—	(50,0)	—	(203,2)	(253,2)
– interest paid	—	(5,2)	(16,0)	(6,8)	(28,0)
Increase due to the the change in overdraft	—	—	277,1	—	277,1
Decrease due to the the change in overdraft	—	—	(157,5)	—	(157,5)
Change of presentation from short to long-term	(226,0)	226,0	—	—	—
Increase due to the acquisition of subsidiary	—	—	27,8	—	27,8
Other non-cash changes	—	—	(4,5)	—	(4,5)
As of 31.12.2018	—	176,0	624,0	216,8	1 016,8
Proceeds from debt contracted	—	—	—	—	—
– financing received	371,6	28,4	—	—	400,0
– transactional cost	0,4	—	3,2	—	3,6
Charging interest	—	2,7	28,4	6,6	37,7
Debt payment	—	—	—	—	—
– repayment of capital	—	(75,0)	—	(6,8)	(81,8)
– interest paid	—	(2,7)	(31,4)	(6,6)	(40,7)
Change in the current account overdraft balance	—	—	169,6	—	169,6
Change of presentation from short to long-term [1]	101,0	(101,0)	—	—	—
Increase due to the acquisition of subsidiary	—	—	—	—	—
Other non-cash changes [2]	—	—	8,2	—	8,2
As at 31.12.2019	473,0	28,4	802,0	210,0	1 513,4

[1] The revolving credit of PLN 101.0 million has a due date as of 2021.

[2] Exchange rate differences in CCC Russia

The note above presents debt liabilities arising from bank loans and bonds. Lease liabilities are presented in note 5.4

Bond liabilities include long-term liabilities of PLN 210 million (as at 31 December 2018: PLN 210 million).

On 20 December 2019 CCC Russia Sp. z o.o. with its registered office in Moscow concluded a credit agreement with AO Citibank with its registered office in Moscow, Gasheka 8-10, 125047 Moscow, in the form of a credit limit of RUB 1 124.6 million. The credit limit is valid until 18 December 2020. The loan utilization at the balance sheet date was RUB 1 124.6 million, which was equivalent to PLN 68.8 million.

On November 21, 2019, the CCC Group entities, i.e.CCC.eu Sp. z o.o., eobuwie.pl S.A. and Gino Rossi S.A. concluded a multi-purpose credit limit agreement with Powszechna Kasa Oszczędności Bank Polski S.A. based in Warsaw at 15 Puławska Street, 02-515 Warsaw. Under this agreement the bank granted a multi-purpose credit limit in the amount of PLN 530.0 million for a period of 36 months, i.e., from 21 November 2019 to 21 November 2022. The period of using the limit expires on 21 November 2022. Within the limit, the bank granted sublimits to the borrowers:

1. non-revolving working capital credit, up to the amount of PLN 400.0 million to finance the liabilities arising from the activities and to settle the liabilities under the multi-purpose credit limit agreement of 30 May 2016 concluded between the bank and its subsidiary CCC.eu Sp. z o.o (utilization as of the balance sheet date was PLN 400.0 million);

2. overdraft facility, limit for bank guarantees and letters of credit up to the total amount of PLN 130.0 million (utilization as of the balance sheet date was PLN 49.2 million).

On 21 October 2019, CCC S.A. and Karl Vögele AG concluded an overdraft agreement with Bank BNP Paribas Bank Polski Spółka Akcyjna based in Warsaw at 10/16 Kasprzaka Street, 01-211 Warsaw. Under the agreement, the Bank granted a credit in the amount of PLN 17.0 million CHF for 12 months, i.e. until October 19, 2020, to finance current operations. The credit utilization on the balance sheet day amounted to CHF 14.4 million which was equivalent to PLN 56.4 million.

On 29 June 2018 CCC S.A. carried out the issue 1/2018 series bonds, as a part of the bond issue program established by the Company. The bonds were not the subject of a public offering.

The bonds were issued on the following terms of issue:

1. Nominal value of one Bond – PLN 1 000;

2. Form of Bonds: dematerialized bearer bonds;

3. Issue price: equal to the nominal value of one Bond;

4. Number of Bonds – 210 000;

5. The total nominal value of the Bonds – PLN 210 000 000;

6. Buyback of the Bonds – one-time buy-out according to the nominal value of the Bonds on 29 June 2021;

7. Interest rate: according to the variable interest rate, based on the WIBOR 6M rate, increased by a fixed margin; interest shall be paid in half-year periods;

8. Security: surety granted by the subsidiaries of the Company, i.e. CCC.eu z o.o. with its headquarters in Polkowice and CCC Shoes & Bags sp. z o.o. based in Polkowice.

[in mln PLN unless otherwise stated]

On 29 June 2018 CCC S.A. acquired 203 150 pieces of ordinary bearer series 1/2014 bonds issued by the Company, with a total par value of PLN 203 150,000, in order to redeem, and the Management Board of the Company adopted a resolution regarding the redemption of these bonds on 29 June 2018.

Financing was received in PLN, CHF, RUB. Interest on total financing (loans and bonds) is based on variable interest rates (WIBOR rate + margin). Existing debt involves interest rate risk and exchange rate risk. A description of the exposure to financial risks can be found in note 6.1.

In the reporting period, the Group paid the capital and interest within the deadlines specified in the agreements, there were no violations of the agreement and the Group did not renegotiate the terms of any of the agreements concerning credit and loan liabilities.

Repayment of these liabilities are covered by the following collateral:

	31.12.2019	31.12.2018
	AMOUNT AND/OR CARRYING AMOUNT OF THE COLLATERAL	
Sureties granted	194,7	129,5
Capped mortgages on property	795	774
Registered pledge on movable assets	1 322,9	795
Assignments of insurance policies	—	209
Submission to execution	—	2,1

As a result of concluded loan agreements and annexes,the collateral has been changed to credit agreements granted under these contracts.

[in mln PLN unless otherwise stated]

4.3 AGREED MATURITY DATES FOR FINANCIAL LIABILITIES AND LIQUIDITY MANAGEMENT POLICY

Precautious liquidity management assumes maintaining sufficient cash and cash equivalents and the availability of further financing through guaranteed credit lines.

The table below provides information on discounted and undiscounted debt liabilities.

i MORE INFORMATION IN SECTION **5.2.1** (CREDITS) REPORT ON THE OPERATIONS OF THE GROUP

NOTE	AS AT 31.12.2019	MORE INFORMATION IN SECTION 3.2.1 (CREDITS)IN REPORT ON THE OPERATIONS OF THE GROUP					TOTAL UNDISCOUNTED	BOOK VALUE
		UP TO 3 MONTHS	3-12 MONTHS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS		
4.2	Borrowings	805,3	38,4	488,2	—	—	1 331,9	1 303,4
4.2	Bonds	—	6,4	213,2	—	—	219,6	210,0
5.8	Trade liabilities	847,5	310,7	—	—	—	1 158,2	1 158,2
	Obligation to return	40,2	—	—	—	—	40,2	40,2
	Obligation to repurchase non-controlling interests	—	7,0	843,7	18,8	—	869,5	801,1
	Lease liabilities	145,2	418,4	713,7	675,1	325,8	2 278,2	2 085,8
	Liability to payment for Adler enterprise	—	2,5	—	—	—	2,5	2,5
	Obligation to pay to the associate	—	32,7	—	—	—	32,7	32,7
	Liability for the obligation to payments to an associate	1 838,2	816,1	2 258,8	693,9	325,8	5 932,8	5 633,9

NOTE	AS AT 31.12.2018	CONTRACTUAL MATURITIES FOR FINANCIAL LIABILITIES FROM THE END OF THE REPORTING PERIOD					TOTAL UNDISCOUNTED	BOOK VALUE
		UP TO 3 MONTHS	3-12 MONTHS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS		
4.2	Borrowings	735,8	64,2	—	—	—	800,0	800,0
4.2	Bonds	—	19,6	213,2	—	—	232,8	216,8
5.8	Trade liabilities	379,0	485,2	—	—	—	864,2	864,2
	Obligation to return	22,2	—	—	—	—	22,2	22,2
	Obligation to repurchase non-controlling interests	—	7,0	—	965,2	11,7	983,9	878,7
	Lease liabilities	119,1	348,6	831,1	278,3	374,6	1 951,7	1 909,2
	Liability to payment for Adler enterprise	—	16,5	2,5	—	—	19,0	19,0
	Total financial liabilities	1 256,1	941,1	1 046,8	1 243,5	386,3	4 873,8	4 710,1

Lease liabilities concern continuing operations.

[in mln PLN unless otherwise stated]

4.4 ADDITIONAL INFORMATION TO SELECTED ITEMS OF THE STATEMENTS OF CASH FLOWS

NOTE	TRADE AND OTHER RECEIVABLES	TRADE AND OTHER LIABILITIES
As of 31.12.2018	430,8	1 151,2
As of 31.12.2019	442,3	1 536,2
Change in the statement of financial position	(11,5)	385,0
Difference arising from:		
Change in investment liabilities/receivables	(0,4)	2,0
Change due to the acquisition of subsidiary	(10,2)	(93,6)
Liabilities related to purchase of organized part of business	—	16,5
Change due to disposal of subsidary	(6,5)	7,2
Other	(45,2)	(0,4)
Change recognized in the statement of cash flows	(75,5)	271,0
As of 31.12.2017	251,6	402,5
As of 31.12.2018	430,8	1 151,2
Change in the statement of financial position	(179,2)	748,7
Difference arising from:		
Change in investment liabilities	(7,1)	(12,4)
Change due to the acquisition of subsidiary	63,6	(107,5)
Receivables related to purchase of financial assets	27,7	—
Liabilities related to purchase of organized part of business	—	(16,5)
Receivables/liabilities directly associated with assets classified as held for sale	(8,6)	8,6
Other	3,8	0,1
Change recognized in the statement of cash flows	(99,8)	621,0

	1.2019-12.2019	1.2018-12.2018
Amortization resulting from the change in the balance of tangible fixed assets		
Amortisation value shown in costs by nature	716,3	602,4

	1.2019-12.2019	1.2018-12.2018
Other profit adjustments before taxation:		
Accrued interest and exchange rate differences	3,3	28,0
Change in provisions	(8,6)	20,3
Change in valuation of CCC Germany negative fair value	(3,1)	—
Change in provisions related to acquisition of subsidiary	—	(18,8)
Valuation of employee option program	(12,2)	25,4
Liabilities on acquisition of shares of subsidiary	1,1	26,7
Gain on bargain purchase	—	(104,4)
Valuation of derivative financial instruments	0,3	—
Valuation of an associate	70,9	—
Goodwill	(15,4)	—
Other	44,1	(0,3)
	80,4	(23,1)

[in mln PLN unless otherwise stated]

5. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5.1 INTANGIBLE ASSETS

ACCOUNTING POLICY

The Group measures intangible assets at cost less amortization and impairment losses.

Depreciation is calculated using the straight-line method by estimating the useful life of a given asset, which for selected groups is equal:

- patents and licenses – from 5 to 10 years
- trademarks – from 5 to 10 years
- other intangible assets – 5 to 10 years

If there are events or changes that indicate that the carrying amount of an intangible asset may not be recoverable, they are reviewed for impairment in accordance with the policy described in note 5.2.

Intangible assets with indefinite economic life and those that are not in use are tested for impairment annually, either for individual assets or at the level of the cash-generating unit.

	PATENTS AND LICENCES	TRADEMARKS	CUSTOMER RELATIONS	INTANGIBLE ASSETS UNDER CONSTRUCTION	TOTAL
Gross value 01.01.2018	17,8	161,2	10,6	28,9	218,5
Aggregated amortization	(13,1)	—	(7,9)	—	(21,0)
Net value 01.01.2018	4,7	161,2	2,7	28,9	197,5
Exchange rate differences from the translations	0,2	—	—	—	0,2
Amortization	(5,3)	(0,5)	(2,7)	—	(8,5)
Acquisition	2,6	—	—	44,1	46,7
Producing on its own	—	—	—	—	—
Liquidation and sale	(0,2)	—	—	(4,5)	(4,7)
Transfer between groups	0,2	—	—	(0,2)	—
Increase related to acquisition of subsidiary	5,6	16,9	7,9	—	30,4
Gross value 31.12.2018 (01.01.2019)	26,2	178,1	18,5	68,4	291,2
Aggregated amortization	(18,4)	(0,5)	(10,6)	—	(29,5)
Net value 31.12.2018 (01.01.2019)	7,8	177,6	7,9	68,4	261,7
Exchange rate differences from the translations	(0,1)	0,2	0,4	—	0,5
Amortization	(4,5)	0,5	(3,0)	—	(7,0)
Acquisition	6,2	(4,5)	0,6	57,3	59,6
Producing on its own	—	—	—	—	—
Liquidation and sale	(8,7)	—	—	(3,0)	(11,7)
Aggregated depreciation (liquidation and sale)	3,6	—	—	—	3,6
Transfer between groups	101,3	—	—	(103,3)	(2,0)
Transfer between groups – aggregated amortization	2,7	—	(2,7)	—	—
Increase related to acquisition of subsidiary	(1,1)	22,8	—	—	21,7
Gross value 31.12.2019	123,8	196,6	19,5	19,4	359,3
Aggregated amortization	(16,6)	—	(16,3)	—	(32,9)
Net value 31.12.2019	107,2	196,6	3,2	19,4	326,4

[in mln PLN unless otherwise stated]

As at the balance sheet date of 31 December 2019, the balance of intangible assets under construction comprised mainly the following items: update of software for electronic document workflow and expenditures related to implementation of a new ERP system. The projects are continued in 2020. The Group has not identified any impairment in their value.

The transfer line between the groups in 2019 showed a new, comprehensive storage system adopted for use, which implementation was commenced in the previous periods.

TRADEMARKS	EOBUWIE S.A.	KARL VOEGELE	DEEZEE SP. Z O.O.	GINO ROSSI	TOTAL
PERIOD OF USE / AMORTISATION METHOD	UNSPECIFIED	UNSPECIFIED	UNSPECIFIED	UNSPECIFIED	
Gross value 01.01.2018	161,2	—	—	—	161,2
Aggregated amortization	—	—	—	—	—
Net value 01.01.2018	161,2	—	—	—	161,2
Exchange rate differences from the translations	—	—	(0,5)	—	(0,5)
Increase related to acquisition of subsidiary	—	7,7	9,2	—	16,9
Gross value 31.12.2018 (01.01.2019)	161,2	7,7	9,2	—	178,1
Aggregated amortization	—	—	(0,5)	—	(0,5)
Net value 31.12.2018 (01.01.2019)	161,2	7,7	8,7	—	177,6
Exchange rate differences from the translations	—	0,2	—	—	0,2
Amortyzacja	—	—	0,5	—	0,5
Acquisition	—	—	(4,5)	—	(4,5)
Increase related to acquisition of subsidiary	—	—	—	22,8	22,8
Gross value 31.12.2019	161,2	7,9	4,7	22,8	196,6
Aggregated amortization	—	—	—	—	—
Net value 31.12.2019	161,2	7,9	4,7	22,8	196,6

The Group recognizes trademarks with indefinite economic life as intangible assets. The Group considers that its trademarks are recognizable on the market and plans to use them in its operations for an indefinite period. Therefore, the Group assumes that trademarks have an indefinite useful life and are not subject to depreciation. All trademarks are tested for impairment annually. Details of impairment tests for eobuwie, DeeZee and Gino Rossi are presented in note 5.2 below

Based on the analysis, there was no evidence of the need to create write-downs of the trademarks at KVAG.

[in mln PLN unless otherwise stated]

5.2 GOODWILL

ACCOUNTING POLICY

Goodwill on account of the acquisition of an entity is initially recognized at the purchase price, which is the amount of the surplus:

- payment made,
- the amount of any non-controlling interest in the acquiree, and
- in the case of a business combination achieved in stages, the acquisition-date fair value of the acquiree's previously held equity interest in the acquirer over the net amount determined as at the date of acquisition of the values of identifiable assets acquired and liabilities assumed.

After the initial recognition, goodwill is reported at cost less any accumulated impairment losses. The impairment test is carried out once a year or more often if there are indications to do so. Goodwill is not subject to amortization.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergy of the combination. Each unit or a group of units to which goodwill has been assigned: corresponds to the lowest level in the Group, at which goodwill is monitored for internal management needs and is no larger than one operating segment determined in accordance with IFRS 8 Operating Segments. An impairment loss is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill was allocated.

If the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. If goodwill is part of a cash-generating unit and part of the operations within this unit is sold, the goodwill associated with the operations sold is included in its carrying amount when determining profits or losses from the sale of such activities.

In such circumstances, goodwill is sold based on the relative value of the operations sold and the value of the part of the cash-generating unit retained.

Goodwill as at 31.12.2019 and 31.12.2018 by acquisitions is presented in the table below:

COMPANY	DATE OF ACQUISITION	AS OF 31.12.2018 (01.01.2019)	ADJUSTMENT OF VALUE – FINAL SETTLEMENT	ACQUI-SITION	EXCHANGE RATE DIFFERENCES FROM THE TRANSLATIONS	AS OF 31.12.2019	CGU SEGMENT
eobuwie S.A.	01.2016	106,2	—	—	—	106,2	Distribution activities – Retail – Poland and e-commerce
Shoe Express S.A.	04.2018	41,2	—	—	(0,7)	40,5	Distribution activities – Retail – EU – Central and Eastern Europe – Eastern Europe
Enterprise Adler International Sp. z o.o. sp. k.	07.2018	48,8	—	—	—	48,8	Distribution activities – Retail – Poland and e-commerce
DeeZee Sp. z o.o.	10.2018	6,3	(5,6)	—	—	0,6	Distribution activities – Retail – Poland and e-commerce
Gino Rossi S.A.	02.2019	—	—	21,8	—	21,8	Distribution activities – Retail – Poland and e-commerce
Goodwill	—	202,5	(5,6)	21,8	(0,7)	217,9	

[in mln PLN unless otherwise stated]

Detailed information on the acquisition settlement and valuation of goodwill of Shoe Express S.A., DeeZee Sp. z o.o., Gino Rossi S.A. and Adler International Sp. z o.o. sp. k. are described in note 6.2.

As at 31.12.2018. The Group performed tests for impairment of goodwill recognized in connection with the acquisition of subsidiaries eObuwie S.A., Shoe Express S.A. and Adler International Sp. z o.o. sp. k. DeeZee sp. z o.o. and Gino Rossi S.A. where goodwill is material and the process of allocation of acquired assets has been completed. The conducted tests did not show the necessity to recognize an impairment loss of goodwill. Management believes that no reasonably possible change in any of the key assumptions set out above would cause the carrying amount of the unit to exceed its recoverable amount significantly.

The impairment test was performed on the basis of calculations of expected cash flows, estimated on the basis of historical results and expectations regarding future market development. The expected cash flows for identified cash-generating units were prepared on the basis of assumptions resulting from historical experience adjusted to the existing plans. These cash flows present the Management Board's best estimates regarding the operations of the acquired company over the next 5 years.

The main assumptions used to determine their usable value are as follows:

- the level of product sales costs
- impact of changes in revenue on direct costs
- level of investment expenditures
- a discount rate based on the weighted average cost of capital and reflecting current market assessments of the time value of money and the risks associated with the cash-generating unit's operations.

The amounts assigned to each of these parameters reflect the Group's experience adjusted for expected changes in the period covered by the business plan, but may be affected by unpredictable economic, political or legal changes.

The impairment test was conducted based on the following assumptions:

31.12.2019	EOBUWIE S.A.	SHOE EXPRESS S.A.	ADLER INTERNATIONAL SP. Z O.O. SP. K.	DEEZEE SP. Z O.O.	GINO ROSSI S.A.
Discount rate before tax	9,8%	13,2%	9,8%	9,8%	9,8%
Average EBITDA profit margin	11,2%	27,7%	30,2%	2,1%	6,3%
Expected cumulative annual growth rate of EBITDA	47,5%	5,0%	3,6%	25%[1]	16%[1]
Residual growth rate	2,0%	2,0%	2,0%	2,0%	2,0%

Predicted cumulative annual EBITDA growth rate calculated only for periods with positive EBITDA.

31.12.2018	EOBUWIE S.A.	SHOE EXPRESS S.A.	ADLER INTERNATIONAL SP. Z O.O. SP. K.
Discount rate before tax	10,5%	13,4%	10,5%
Average EBITDA profit margin	10,4%	31,5%	34,6%
Expected cumulative annual growth rate of EBITDA	29,5%	0,9%	3,1%
Residual growth rate	2,0%	2,0%	2,0%

[in mln PLN unless otherwise stated]

5.3 TANGIBLE FIXED ASSETS

ACCOUNTING POLICY

Tangible fixed assets include: investments in third-party fixed assets (i.e. expenditures in leased premises used for retail sale of goods); fixed assets used in production and distribution activities and other.

Fixed assets are recognized at purchase price or production cost less depreciation write-offs and impairment losses, if any. Land and fixed assets under construction are not subject to depreciation.

Subsequent expenditures are included in the carrying amount of a given fixed asset or recognised as a separate fixed asset (where appropriate) only if it is probable that economic benefits will flow to the Group under this item and the cost of the given item can be reliably estimated.

The carrying amount of the aforementioned part is removed from the statement of financial position. All other expenses on repairs and maintenance are charged to the financial result in the financial period in which they were incurred.

Borrowing costs are capitalized and reported as an increase in the value of a fixed asset.

Depreciation is calculated on a straight-line basis by estimating the period of use of a given asset, which for selected groups is equal:

GROUP OF FIXED ASSETS	DEPRECIATION PERIOD	OTHER UTILITY PERIOD
Investments in stores	Depreciation period is determined by two factors and accept lower of values: • utility period of outlays (typically 10 years) • duration of the lease agreement of the store where the fixed asset is placed (usually 10 years)	
Factory and distribution	• buildings • machines and equipment • means of transport • other tangible fixed assets	• from 10 to 40 years • from 10 to 40 years • from 5 to 10 years • from 5 to 10 years
Other	• machines and equipment • means of transport • other tangible fixed assets	• from 3 to 15 years • from 5 to 10 years • from 5 to 10 years

Depreciation method and its period are reviewed at each balance sheet date.

Impairment of non-financial fixed assets

At each balance sheet date, the Group evaluates if there are any objective evidence of impairment of a given tangible fixed asset.

Depreciable assets are analyzed for impairment whenever certain circumstances or changes in circumstances indicate that their carrying amount may not be realized. Impairment loss is recognized in the amount by which the carrying amount of a given asset exceeds its recoverable amount. The recoverable amount is the higher of two amounts: the fair value of the assets, less sales costs, or the value in use. For the purpose of impairment analysis, assets are grouped at the lowest level in relation to which there are identifiable separate cash flows (cash-generating units). Non-financial assets which have previously been found to be impaired are assessed at each balance sheet date for any evidence that an impairment loss may be reversed.

In retail business, each store is a separate cash-generating unit. Pursuant to the above principles, in respect of investments in stores, the Group performs an analysis for impairment at each balance sheet date. The operating result generated by each of the retail units is reviewed.

In order to estimate the impairment loss on non-financial fixed assets, the Group takes into account the following premises:

- The store has been operating for at least 24 months.
- The store bears a gross loss in each of the last two years of operation.
- The analysis of the current value of future cash flows indicates that it is not possible to cover the investment expenditure incurred.

If an asset is considered irrecoverable, the Group makes an impairment loss in the amount of the surplus of the incurred capital expenditure over the recoverable value. The impairment loss is recognized in other operating expenses.

For the companies of the Group that start up or operate in developed economies, additional market acquisition considerations are analyzed. For these entities, the period of adaptation and achievement of expected profitability may be extended to 5 years.

[in mln PLN unless otherwise stated]

ACCOUNTING POLICY

Grants received

Grants for the acquisition or production of property, plant and equipment are recognized by the Group when they are received or reasonably expected to be received in the future (e.g. a promissory note, lease incentives if there is reasonable assurance that the Group will meet the conditions necessary to receive the grant. Grants are recognized as deferred income (item „grants received"). The amounts of grants included in deferred income are gradually recognized in other operating income, in par with depreciation or amortization write-offs on property, plant and equipment financed from these sources.

Certain assets relating to individual outlets may be permanently attached to the leased premises (outlays in stores), which makes it impossible to use or resell them alternatively. Their estimated rental period is not always related to the lease term of the premises due to the option to extend the lease agreements. The assumed exploitation periods are described above.

Therefore, the level of depreciation costs may differ from the estimated lease period of the outlet. Changes in this period may affect the level of impairment losses.

Fixed assets under construction include primarily capital expenditures incurred in stores.

Information on fixed assets securing the debt incurred is presented in note 4.2.

CCC S.A. concluded on 23 December 2009 an agreement with the Polish Agency for Enterprise Development for the co-financing of investment in fixed assets. The Company applied for a subsidy from the Operational Program Innovative Economy for the investment in the construction of a high storage warehouse located in Polkowice. The final amount of subsidy amounted to 38.5 million PLN. As at the balance sheet date, the value of the unsettled subsidy amounted to PLN 19.0 million.

In accordance with the Group's accounting policy, this subsidy is presented in the item „Grants received" in the statement of financial position.

		FACTORY AND DISTRIBUTION				OTHER TANGIBLE FIXED ASSETS				
	INVESTMENT IN STORES	FACTORY LANDS AND TOTAL BUILDINGS	MACHINES AND EQUIPMENT	TANGIBLE FIXED ASSETS UNDER CON-STRUCTION	TOTAL	LANDS AND TOTAL BUILDINGS ASSETS	MACHINES AND EQUIPMENT	OTHER	TOTAL	TOTAL
Gross value 01.01.2018	590,7	251,1	132,4	37,4	420,9	27,0	60,0	43,5	130,5	1 142,2
Aggregated depreciation	(197,7)	(31,7)	(63,8)	(1,6)	(97,1)	(2,1)	(37,2)	(21,1)	(60,4)	(355,2)
Impairment loss	—	—	—	—	—	—	—	—	—	—
Net value 01.01.2018	393,0	219,5	68,6	35,8	323,8	24,9	22,8	22,4	70,2	787,0
Exchange rate differences from the translations	3,5	—	—	0,5	0,5	—	0,1	—	0,1	4,1
Acquisition	221,3	86,1	54,4	0,2	140,7	18,4	16,0	8,9	43,3	405,3
Amortization and depreciation	(83,0)	(6,9)	(17,5)	—	(24,4)	(2,2)	(10,2)	(5,1)	(17,5)	(124,9)
Liquidation and sale	(67,2)	(6,5)	(4,7)	—	(11,2)	(27,7)	(0,9)	(26,9)	(55,5)	(133,9)
Aggregated depreciation (liquidation and sale)	39,1	5,9	1,9	—	7,8	0,2	—	5,7	5,9	52,8
Transfers	(16,7)	12,9	0,9	(23,8)	(10,0)	13,1	(0,2)	13,8	26,7	—
Impairment loss	(62,6)	—	—	—	—	—	—	(1,2)	(1,2)	(63,8)
Increase related to acquisition of subsidiary	188,0	—	—	—	—	24,3	2,2	3,1	29,7	217,7

[in mln PLN unless otherwise stated]

		FACTORY AND DISTRIBUTION				OTHER TANGIBLE FIXED ASSETS				
	INVESTMENT IN STORES	FACTORY LANDS AND TOTAL BUILDINGS	MACHINES AND EQUIPMENT	TANGIBLE FIXED ASSETS UNDER CONSTRUCTION	TOTAL	LANDS AND TOTAL BUILDINGS ASSETS	MACHINES AND EQUIPMENT	OTHER	TOTAL	TOTAL
Gross value 31.12.2018	920,3	343,7	189,4	14,2	547,3	55,1	77,8	42,9	175,8	1 643,4
Including: gross value of fixed assets of the group intended for disposal covered by an impairment loss	52,9	—	—	—	—	—	—	—	—	52,9
Aggregated depreciation	(242,3)	(32,7)	(85,8)	(1,6)	(120,1)	(4,1)	(47,7)	(21,1)	(72,9)	(435,3)
Impairment loss	(62,6)	—	—	—	—	—	—	(1,2)	(1,2)	(63,8)
Net value 31.12.2018	615,4	311,0	103,6	12,6	427,2	51,0	30,0	20,7	101,7	1 144,3
Exchange rate differences from the translations	(5,3)	—	12,1	(12,3)	(0,2)	(0,1)	4,2	(0,3)	3,8	(1,7)
Purchase	185,3	78,1	72,3	80,9	231,3	0,7	15,8	9,9	26,4	443,0
Amortization and depreciation	(116,4)	(11,2)	(43,5)	(2,9)	(57,6)	(2,5)	(12,1)	(6,2)	(20,8)	(194,8)
Liquidation and sale	(148,6)	(8,0)	(3,8)	(1,3)	(13,1)	—	(4,5)	(6,0)	(10,5)	(172,2)
Aggregated depreciation (liquidation and sale)	63,1	0,2	1,2	0,2	1,6	—	2,8	4,8	7,6	72,3
Transfers	—	—	16,5	(19,4)	(2,9)	—	0,1	—	0,1	(2,8)
Impairment loss	(2,1)	—	—	—	—	—	—	—	—	(2,1)
Use of impairment loss in connection with a disposal of a subsidiary	52,9	—	—	—	—	—	—	—	—	52,9
Utilisation of an impairment loss established before the acquisition of the subsidiary	10,0	—	—	—	—	—	—	—	—	10,0
Increase related to acquisition of subsidiary	1,6	12,3	12,1	5,1	29,5	—	—	—	—	31,1
Gross value 31.12.2019	1 169,0	426,1	300,0	65,6	791,6	44,5	137,0	52,3	233,8	2 194,4
Aggregated depreciation	(501,2)	(43,7)	(129,5)	(2,7)	(175,8)	(6,6)	(100,7)	(28,3)	(135,6)	(812,6)
Impairment loss	(11,9)	—	—	—	—	11,2	—	(1,1)	10,1	(1,8)
Net value 31.12.2019	655,9	382,4	170,5	62,9	615,8	49,1	36,3	22,9	108,3	1 380,0

In 2019 the Group incurred significant capital expenditure on tangible fixed assets allocated to the group of tangible fixed assets within Factory and distribution. The main expenditures include a new high-bay warehouse, research and development center and the showroom.

5.4
RIGHT OF USE ASSETS AND LEASE LIABILITIES

ACCOUNTING POLICY

At the date of commencement, the CCC Capital Group evaluates an asset due to the right of use at cost.

The cost of an asset due to the right of use should include:

- an initial amount of the lease liability valuation,
- any lease payments made on or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee,
- an estimate of the costs to be incurred by the lessee to remove and dispose of the underlying asset, to refurbish the site on which it is located, or to restore the underlying asset to the condition required by the terms of the lease, unless those costs are incurred to produce inventories.

The periods adopted by the Capital Group for the lease agreements of particular asset categories are as follows:

- Up to 3 months
- From 4 to 12 months
- 13 to 60 months
- Over 60 months

Certain lease agreements include an option for renewal or termination of the lease. The Group applies the current end date of the agreement, which is updated when it is informed about the extension / termination of the agreement. The assumed duration of the agreement is based on the business premises. If the Group decides to extend the agreement, its term is extended by the activated term of the extension option under the agreement.

The Group also concludes agreements for an unspecified period of time. The Management Board makes judgement to determine the period for which it can be assumed with sufficient certainty that such agreements would last.

The Group also has lease agreements where the lease term is 12 months or less and lease agreements for computer hardware (printers) and low value payment terminals. The Group uses a simplification for short-term leases, contracts concluded for an indefinite period of time, contracts for which the lease liability is determined only on variable (current) rent and leases for which the base asset has low value.

The Group recognizes the aforementioned costs as flat costs under „other costs of sales (low and short-term leases) and under „costs of functioning of stores" (contracts concluded for an indefinite period of time and sales-based rents).

The lessee evaluates the lease liability at the commencement date at the current amount of lease payments due at that date (discounted future payments during the lease).

Lease payments are discounted using the interest rate of the lease if that rate can be easily determined. Otherwise, the lessee applies the lessee's marginal interest rate.

At the commencement date, the lease payments included in the valuation of the lease liability include the following payments for the right of use of the underlying asset during the lease term, which remain due at that date:

- fixed lease payments (including generally fixed lease payments as defined in paragraph B42 of the standard) less any lease incentives receivable;
- variable lease payments, which depend on an index or rate, measured initially using that index or rate at their value at the commencement date,
- amounts expected to be paid by the lessee under the guaranteed residual value,
- the exercise price of the call option provided there is reasonable certainty that the lessee will exercise the option (measured using the criteria in paragraphs B37-B40 of the standard), and
- financial penalties for termination of the lease, if the lease terms and conditions provide that the lessee may exercise the option to terminate the lease.

Variable lease payments that depend on an index or rate referred to above include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate or payments that change to reflect the changes with respect to free market rents.

For each type of contract, the Group has estimated the amount of the discount rate applicable to the final valuation of these contracts. Given the type of contract, the duration of the contract, the currency of the contract and the potential margin that the Group would have to pay to third party financial institutions should they enter this transaction in the financial market.

The valuation of the leasing liability is periodically settled with the leasing payments.

Expenses related to the use of leased assets are presented in „depreciation" and in financial costs as interest costs. Assets under the right of use are depreciated on a straight-line basis, whereas liabilities under lease agreements are settled with the effective interest rate.

The Group evaluates lease agreements that meet the criteria of IFRS 16. The Group includes the following items in current costs:

- Depreciation costs of assets due to the right of use
- Costs of interests
- Exchange rate differences

[in mln PLN unless otherwise stated]

The table below presents valuation of assets under the right of use as at the balance sheet date:

RIGHT OF USE LEASE ASSETS	STORES	WAREHOUSES	MEANS OF TRANSPORT	OFFICES	OTHER STORES	TOTAL
Gross value 01.01.2019	2 254,1	11,5	4,2	—	0,5	2 270,3
Depreciation 01.01.2019	(396,4)	(1,7)	(1,8)	—	(0,3)	(400,2)
Net value 01.01.2019	1 857,7	9,8	2,4	—	0,2	1 870,1
Conclusion of new lease agreements	270,1	58,9	6,2	26,1	1,3	362,6
Changes resulting from modifications of contracts	355,8	16,4	(0,3)	6,3	0,1	378,3
Changes resulting from a change in a scope of the contract – shortening the period – gross value	(180,0)	(9,5)	(0,1)	—	—	(189,6)
Changes resulting from a change in a scope of the contract – shortening the period – depreciation	23,4	1,9	—	—	—	25,3
Increase due to the acquisition of subsidiary	35,9			4,7	3,6	44,2
Renewal	—	—	—	—	—	—
Gross value 31.12.2019	2 759,3	79,2	10,0	37,1	5,5	2 891,1
Depreciation as at 01.01.2019	(396,4)	(1,7)	(1,8)	—	(0,3)	(400,2)
Amortization during the period	(433,6)	(49,8)	(2,6)	(17,0)	(1,3)	(504,3)
Depreciation as at 31.12.2019	(830,0)	(51,5)	(4,4)	(17,0)	(1,6)	(904,5)
Net value 31.12.2019	1 929,3	27,7	5,6	20,1	3,9	1 986,6

RIGHT OF USE LEASE ASSETS	STORES	WAREHOUSES	MEANS OF TRANSPORT	OFFICES	OTHER STORES	TOTAL
Gross value 01.01.2018	2 063,6	10,1	2,3	—	0,1	2 076,1
Aggregated depreciation	—	—	—		—	—
Net value 01.01.2018	2 063,6	10,1	2,3	—	0,1	2 076,1
Conclusion of new lease agreements	677,7	1,2	1,9	—	0,4	681,2
Changes resulting from modifications of contracts	81,2	0,2	—	—	—	81,4
Changes resulting from a change in a scope of the contract – shortening the period – gross value	(9,5)	—	—	—	—	(9,5)
Reclassification into discontinued operations	(558,9)	—	—	—	—	(558,9)
Gross value 31.12.2018	2 254,1	11,5	4,2	—	0,5	2 270,3
Depreciation	(460,1)	(1,7)	(1,8)	—	(0,3)	(463,9)
Reduction of depreciation resulting from reclassification to discontinued operations	63,7	—	—	—	—	63,7
Net value 31.12.2018	1 857,70	9,8	2,4	—	0,2	1 870,1

The other item includes mainly lease agreements for warehouse and office space.

Adjustments result mainly from the extension of contracts and changes in the rent price during the term of the contract.

[in mln PLN unless otherwise stated]

The table below shows the value of the lease liability as at the balance sheet date:

	31.12.2019	31.12.2018
As of 01.01.	1 909,2	2 076,1
Accrued interest	36,2	32,6
Lease payments	(516,1)	(467,8)
Exchange rate differences	(3,7)	28,3
New agreements	341,5	666,9
Modification of contract terms	422,2	60,0
Indexation	13,6	20,5
Renewal	0,1	0,3
Change of scope	(161,5)	(9,8)
Increase due to the acquisition of subsidiary	44,3	—
Reclassification into discontinued operations	—	(497,9)
As of 31.12.	2 085,8	1 909,2

SELECTED ITEMS FROM THE STATEMENT OF COMPREHENSIVE INCOME	2019	2018
Cost of operating stores	(34,2)	(20,3)
Payments	(516,1)	(467,8)
Amortization and depreciation	504,3	463,9
Rental costs of indefinite and short-term contracts	(22,4)	(16,4)
Other operating income and costs	(4,0)	(0,2)
Liquidation costs	(4,0)	(0,2)
Profit/(loss) on operating activities	(38,2)	(20,5)
Finance income	2,5	—
Finance costs	(40,2)	(60,9)
Interests	(36,2)	(32,6)
Exchange rate differences	(4,0)	(28,3)
Profit/ (loss) before tax	(75,9)	(81,4)
Income tax	12,5	14,6
Net profit / (loss)	(63,4)	(66,8)

[in mln PLN unless otherwise stated]

5.5 INVENTORIES

ACCOUNTING POLICY

Inventories are stated at the lower of cost of goods or net selling price depending on the lower of these amounts. The cost of finished goods and work in progress includes design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), excluding borrowing costs.

Net selling price is the estimated selling price in the ordinary course of business, less the related variable selling expenses.

When circumstances occur that result in a decrease the value of inventories, a write-down of inventories in the cost of goods is made. If the circumstances resulting in a decrease in the value of inventories no longer exist, the write-down is reversed by reducing the cost of goods sold.

The AVCO valuation method is used for the disbursement of all inventories of a similar type and purpose

With the beginning of 2019, the Group changed its inventory management system in order to: improve processes related to logistics, pricing policy, collection management and increase the efficiency of inventory management in the Group compared to the previous system. The new inventory management system enables valuation of inventories only at weighted average cost (AVCO) and therefore the Group had to replace the previous method, i.e. first in, first out (FIFO). In the opinion of the Management Board of the Group, the AVCO method is widely used in the trading industry due to better presentation of cost of inventories, which provides better information for users of financial statements. The new system does not allow for converting the stock valuation according to the AVCO method for the previous reporting period, the Group is not able to present the impact of the system change as at 1 January 2018, 31 December 2018 or 31 December 2019 and for the years 2018 and 2019.

	31.12.2019	31.12.2018
Materials	28,3	27,6
Manufacturing in progress	11,9	66,4
Goods	1 844,0	1 706,1
Finished goods	47,5	29,8
Advance on delivery of goods	—	3,3
Assets due to returns	31,7	14,4
Total (gross)	1 963,4	1 847,6
Inventory provision	(21,1)	(41,5)
Total (net)	1 942,3	1 806,1

[in mln PLN unless otherwise stated]

The increase in inventories is driven by the purchase of new collections, sales of goods in 2019 lower than expected, and the acquisition of control over Gino Rossi S.A.

In connection with the customer's right to return unused goods, the Group calculates the liability and assets on that account. Deliveries made after the balance sheet date are assigned to revenues of a subsequent period while the value of returns decreases revenues of the current period. The value of assets is presented in the value of inventories and the value of liabilities is presented in other liabilities. As at the balance sheet date, the value of assets amounted to PLN 31.7 million while the value of liabilities amounted to PLN 40.2 million.

The increase on account of return on assets results from the growing scale of activity of eobuwie.pl S.A.

In order to determine the amount of the write-down, the Management Board uses the most relevant historical data and sales forecasts. Footwear sales depend mainly on changing trends and customer expectations.

Inventories used to determine the amount of the write-down as at the balance sheet date are those which, due to the category of the collection assigned, are older than 2 years, beginning with the current year's collection. Based on the probability of sales of footwear meeting the above conditions, the Company determines the ratio which is applied to calculate the value of the inventory write-down.

The amounts of impairment write-downs on inventories and changes in such write-downs are presented below.

CHANGES IN INVENTORY WRITE-DOWNS

i MORE INFORMATION IN SECTION **5.1.1.2** (CURRENT ASSETS) IN REPORT ON THE OPERATIONS OF THE GROUP

	31.12.2019	31.12.2018
At the beginning of the period	41,5	12,2
Establishment in cost of sales of goods	7,3	5,1
Utilisation	(28,1)	(6,7)
Reversal in cost of goods sold	(0,1)	—
Increase related to acquisition of subsidiary	—	30,9
Exchange rate differences from the translations	0,5	—
At the end of the period	21,1	41,5

In 2019, the Company made an inventory write-down of PLN 7.3 million. Creation of the additional inventory impairment charge or its release relates to goods. Changes in the write-downs result from the development of the Group's operations and its sales policy.

In 2018. In 2018, the Group recognized an inventory write-down of PLN 30.9 million, which was related to the inventory acquired as part of the acquisition of Karl Voegele AG (as a result of valuation of inventories to fair value as at the acquisition date). In 2019, this write-down of PLN 24.0 million was utilized.

[in mln PLN unless otherwise stated]

The table below shows the age structure of inventories:

THE AGE STRUCTURE OF INVENTORIES	31.12.2019	31.12.2018
up to 1 year	1 426,0	1 322,8
from 1 to 2 years	422,7	402,3
from 2 to 3 years	89,2	102,2
over 3 years	25,5	20,3
Total (gross)	1 963,4	1 847,6

Details of the value of inventories securing the repayment of loans are presented in Note 4.2.

5.6 TRADE RECEIVABLES AND OTHER

ACCOUNTING POLICY

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less the impairment losses (further policy explained in note 6.1).

If the amount payable can be expected within one year, receivables are classified as current assets. Otherwise, it is recognized as fixed assets.

Other receivables

Receivables other than financial assets are initially recognized at nominal value and measured as at the end of the reporting period at the amount due.

Loans granted

Loans granted are measured initially at their fair values and are measured after initial recognition at amortized cost using the effective interest rate method less the impairment losses (further policy is described in note 6.1).

[in mln PLN unless otherwise stated]

	31.12.2019	31.12.2018
Trade and other receivables	211,7	125,8
Provision for receivables	(2,3)	(1,4)
Total net receivables	209,3	124,4
Advance on delivery of goods	128,5	196,7
Accrued expenses	30,6	16,6
Tax receivables	49,8	20,6
Advance on purchase of shares of Gino Rossi S.A.	—	27,7
Receivables from fit-outs sale	9,0	3,3
Other	15,1	41,5
Total other receivables	233,0	306,4

LONG-TERM RECIVEABLES	31.12.2019	31.12.2018
Trade and other receivables	37,2	—
Provision for receivables	—	—
Long-term trade receivables	37,2	—
Long-term deposits	11,2	5,8
Employee pension fund	4,3	4,6
Total other long-term receivables	15,5	10,4

LOANS GRANTED	31.12.2019	31.12.2018
Long-term loans granted	78,0	—
Short-term loans granted	4,6	37,7
	82,6	37,7

An increase in receivables from customers is mainly caused by the development of franchise stores in 2019.

Accrued expenses mainly concern rental, advertising, sponsorship, insurance, fees license to be incurred in future periods. The increase in this item results from the Group's expansion.

A decrease in other short-term receivables results mainly from the settlement of the acquisition of Gino Rossi in the amount of PLN 27.1 million.

At the balance sheet date 31 December 2019 the Group recognised long-term receivables due to sales of goods from CCC Germany, which ceased to be a subsidiary of the parent company in 2019. The payment date of this receivable is 2021

As at the balance sheet date of 31 December 2019, the loans were granted to the associate HRG, and as at 31 December 2018, the loans were granted to Gino Rossi S.A., which in 2019 became a subsidiary of the parent company.

The loan receivable is exposed to credit risk, interest rate risk and currency risk. Details of the risks are presented in note 6.1.

Terms and conditions of transactions with related entities are presented in note 6.5.

Receivables from customers are non-interest bearing and usually have a market maturity.

The Group has a specific policy to sell only to verified customers. As a result, management believes that there is no additional credit risk exceeding the level of the expected credit loss write-down applicable to the Group's trade receivables.

[in mln PLN unless otherwise stated]

5.7
CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents include cash in hand and bank deposits on demand. Overdrafts are presented in the statement of financial position as a component of current debt liabilities. For the purposes of the statement of cash flows, loans in the current account do not decrease the balance of cash and cash equivalents.

i MORE INFORMATION IN SECTION **5.1.1.2** (CASH AND CASH EQUIVALENTS) IN REPORT ON THE OPERATIONS OF THE GROUP

	31.12.2019	31.12.2018
Cash in hand	21,4	36,2
Cash at bank	447,6	289,0
Short-term deposits (up to 3 months)	73,6	50,6
Total	542,6	375,8

Cash and cash equivalents are exposed to credit risk and currency exchange risk.

Policy for managing these risks and further information on these risks (credit quality assessment, exchange rate sensitivity analysis and interest rate sensitivity analysis) are shown in note 6.1.

5.8
TRADE LIABILITIES AND OTHER

ACCOUNTING POLICY

Trade liabilities are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method.

Trade liabilities are classified as current liabilities if the due date falls within one year. Otherwise, liabilities are shown as non-current.

Other liabilities are measured at the amount of the payment due.

The Group incurs costs related to the functioning of the Employee Capital Plans („PPK") by making payments to the pension fund. These are post-employment benefits in the form of a defined contribution plan. The Group recognizes the costs of payments to the PPK in the same cost item in which it recognizes the costs of remunerations, upon which they are calculated. Liabilities due to PPK are presented under other non-financial liabilities in the item „Other liabilities".

[in mln PLN unless otherwise stated]

	31.12.2019	31.12.2018
Trade liabilities		
• supply of goods and services – excluding reverse factoring	584,5	333,5
• supply of goods and services – including reverse factoring	531,8	486,4
• investment	41,9	44,3
• other	—	—
Total	1 158,2	864,2
Liabilities for indirect taxes, duties and other benefits	162,6	111,0
Liabilities to employees	78,8	72,6
Obligation to pay for aquired company	2,5	19,0
Accrued expenses	28,0	25,4
Obligation to return	40,2	22,2
Obligation to pay to the associate	32,7	—
Other liabilities	33,2	24,1
Total	378,0	274,3

The Group uses the reverse factoring service, under which, upon presentation of an invoice for the purchases made, the factor's bank repays the liabilities to suppliers within 7 business days. The Group pays off its liabilities towards the factor's bank within the time limit originally provided for in the invoices, therefore, from the Group's perspective, there is no extension of payment terms in relation to the previously applied settlements with suppliers. The Group does not incur costs of prior repayment of liabilities to suppliers by the factor. In the Group's opinion, the nature of these liabilities remains unchanged and therefore their classification as trade payables continues.

As at the balance sheet date, i.e. 31 December 2019, a significant increase in trade payables to suppliers was noted – excluding balances subject to reverse factoring as compared to 31 December 2018. This increase results, among others, from: the development of the Group (including the acquisition of Gino Rossi S.A.) and, consequently, a higher level of inventories, which also resulted in an increase in liabilities, as well as a higher level of cash and cash equivalents.

Trade and other liabilities are exposed to currency risk. Management of currency risk and sensitivity analysis are presented in note 6.1.

Liquidity risk is also associated with liabilities (see note 6.1 for further information).

The fair value of payables to suppliers is similar to their carrying amount.

The obligation to pay an associate is further described in note 6.2.

COMMITMENTS TO INCUR EXPENSES AND OTHER FUTURE LIABILITIES

At the balance sheet date 31 December 2019 the Group has no commitments to incur expenditures or other obligations to be incurred in the future.

[in mln PLN unless otherwise stated]

5.9 PROVISIONS

ACCOUNTING POLICY

Provision for jubilee awards and retirement benefits and litigations are mainly recognized within the provisions.

The provision for warranty repairs is created as an estimated determination determine of the average level of product returns in respect of the complaints based on historical data.

After making the calculation for several periods and on the basis of gained experience of the Group in order to simplify the estimates made, the average rate of complaints concerning prior periods is calculated. Variable determining the potential returns from sales, upon which the value of the potential claims depends is the amount of revenue from sales in the period.

In subsequent periods some provisions adjustments are made by increasing or releasing depending on the revenue generated from the sales. Provision for litigations is created in the amount representing the best estimate of the amount required to settle the resulting obligation.

In accordance with the Company's remuneration plans, the Group's employees are entitled to jubilee awards and retirement benefits. Retirement benefits are paid once, at the time of retiring. The amount of retirement benefits and jubilee awards depends on the employee's years of employment and average remuneration. The Group creates a provision for future liabilities due to retirement benefits and jubilee awards in order to allocate costs to the periods to which they relate. According to IAS 19, jubilee awards are other long-term employee benefits, while retirement benefits are post-employment defined benefit plans. The present value of these liabilities at each balance sheet date is calculated by an independent actuary.

Long-term benefit plan during employment

Under the terms of the collective labour agreement, a group of employees has the right to receive jubilee awards depending on seniority.

Eligible employees receive a lump sum constituting, after 10 years of service, the equivalent of 100% of the base salaries monthly, an amount equivalent to 150% of the base salaries monthly after 15 years of service, after 20 years of service an amount equivalent to 200% of the base salaries monthly and after 25 years of service an amount equivalent to 250% of the base monthly salaries.

These benefits are recognized on the basis of actuarial valuations and profits (losses) resulting from the valuation are recognized in the capital. The Group establishes a provision for future jubilee awards based on actuarial valuation using the projected unit benefit method.

	PROVISION FOR JUBILEE AWARDS AND RETIREMENT BENEFITS	PROVISIONS FOR WARRANTY REPAIRS	PROVISION FOR LITIGATION	OTHER PROVISIONS	TOTAL
As of 31.12.2018	12,5	12,8	—	4,0	29,3
Current	1,5	12,8	—	2,9	17,2
Non-current	11,0	—	—	1,1	12,1
As of 01.01.2019	12,5	12,8	—	4,0	29,3
Establishment	1,9	3,3	1,8	0,2	7,2
Utilisation	(0,6)	(1,4)	—	(2,3)	(4,3)
Release	1,2	(0,2)	—	(1,4)	(0,4)
Exchange rate differences	(0,2)	—	—	—	(0,2)
Increase related to acquisition of subsidiary	0,7	—	—	—	0,7
As of 31.12.2019	15,5	14,5	1,8	0,5	32,3
Current	2,0	14,5	1,8	—	18,3
Non-current	13,5	—	—	0,5	14,0

Based on the valuation made by a professional actuarial firm, the Group creates a provision for the current value of liabilities under retirement benefits. Due to the fact that the balance consists mainly of provisions created in CCC S.A., CCC.eu Sp. z o.o. and CCC Factory Sp. z o.o. the information presented below concerning the main assumptions and sensitivity analysis presents the cumulative data for the mentioned companies.

[in mln PLN unless otherwise stated]

The main assumptions adopted for the valuation of employee benefits at the reporting date are as follows:

Discount rate	2,00%
Mortality tables	pttz20178
Assumed average annual increase in the basis for calculation of retirement benefits between 2018-2027	2,54%
Assumed average annual increase in the basis for calculating anniversary benefits between 2018-2027	2,54%
Weighted average employee mobility coefficient (Group value range)	6,64% - 37,37%
Average maturity of post-employment benefits (in years) – value range for the Group	2,76 - 7,97

Sensitivity analysis of provisions for employee benefits:

31.12.2019

PROVISION	FINANCIAL DISCOUNT RATE		PLANNED BASE GROWTHS	
	-1 P.P.	+1 P.P.	-1 P.P.	+1 P.P.
Retirement benefits	1,1	1,0	1,0	1,2
Severance pay	0,2	0,1	0,1	0,2
Anniversary benefits	11,5	10,4	10,3	11,6
Post-mortem allowances	1,0	0,8	0,8	1,0
Total provisions	13,8	12,3	12,2	14,0

31.12.2018:

Discount rate	2,80%
Mortality tables	pttz2017
Assumed average annual increase in the basis for calculation of retirement benefits between 2018-2027	2,61%
Assumed average annual increase in the basis for calculating anniversary benefits between 2018-2027	2,61%
Weighted average employee mobility coefficient (Group value range)	6,79% - 35,28%
Average maturity of post-employment benefits (in years) – value range for the Group	0,1 - 6,4

PROVISION	FINANCIAL DISCOUNT RATE		PLANNED BASE GROWTHS	
	-1 P.P.	+1 P.P.	-1 P.P.	+1 P.P.
Retirement benefits	1,0	0,8	0,8	1,0
Severance pay	0,1	0,1	0,1	0,1
Anniversary benefits	10,2	9,3	9,2	10,4
Post-mortem allowances	0,9	0,7	0,7	0,9
Total provisions	12,2	10,9	10,8	12,3

6. OTHER NOTES

6.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICY

Financial assets

Classification of financial assets

Financial assets are classified into the following valuation categories:

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

The Group classifies a given financial asset on the basis of the Group's business model for financial asset management and the contractual cash flow characteristics of the financial asset (the so-called „SPPI criterion"). The Group reclassifies investments into debt instruments if and only if the management model of these assets is changed.

Measurement at initial recognition

Except for some trade receivables, the Group measures the financial asset at its fair value upon initial recognition, which in the case of financial assets other than those measured at fair value through profit or loss is increased by transaction costs directly attributable to the acquisition of those financial assets.

Discontinuation of recognition

Financial assets are derecognized from the books when:

- the rights to obtain cash flows from financial assets have expired, or
- The rights to receive cash flows from financial assets have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Measurement after initial recognition

For valuation purposes after initial recognition, financial assets are classified into one of four categories:

- debt instruments measured at amortized cost,
- debt instruments measured at fair value through other comprehensive income,
- equity instruments measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

Debt instruments – financial assets measured at amortized cost

A given financial asset is measured at amortized cost if both of the following conditions are met:

(a) the financial asset is held in accordance with a business model that aims to hold the financial asset to earn the contractual cash flows; and

(b) the terms of the contract for the financial asset generate cash flows on specified dates that are merely the repayment of principal and interest on the principal outstanding.

The Group classifies financial assets measured at amortized cost into the category of financial assets:

- trade receivables,
- loans granted that meet the SPPI classification test, which according to the business model are reported as held for cash flow,
- cash and cash equivalents.

Interest income is calculated using the effective interest rate method and disclosed in the profit and loss account/ statement of comprehensive income under „Interest income".

ACCOUNTING POLICY

Debt instruments – financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

(a) a financial asset is held under the business model that aims both to receive contractual cash flows and to sell the financial asset; and

(b) terms of a financial asset's contract result in cash flows on specified dates that are merely the repayment of principal and interest on the principal outstanding.

Interest income, foreign exchange differences and impairment gains and losses are recognized in profit or loss and calculated in the same way as financial assets measured at amortized cost. Other changes in fair value are recognized in other comprehensive income. At the moment of discontinuation of recognition of a component of financial assets, the total profit or loss previously recognized in other comprehensive income is reclassified from the equity item to the financial result.

Interest income is calculated using the effective interest rate method and disclosed in the profit and loss account/ statement of comprehensive income under „Interest income".

Equity instruments – financial assets measured at fair value through other comprehensive income

At the time of initial recognition, the Group has an irrevocable option to recognize in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for sale nor a contingent consideration recognized by the acquirer in a business combination to which IFRS 3 applies. This option is made separately for each equity instrument. A cumulative gain or loss previously recognized in other comprehensive income shall not be reclassified to profit or loss. Dividends are recognized in profit or loss/ statement of comprehensive income when an entity's entitlement to receive a dividend arises, unless the dividends are clearly a recovery of part of the investment costs.

Financial assets measured at fair value through profit or loss

Financial assets that are not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

The Group classifies derivative financial instruments as financial assets measured at fair value through profit or loss.

Profit or loss on the measurement of these assets at fair value is recognized in the financial result.

Dividends are recognized in the profit and loss account/ statement of comprehensive income when the entity's right to receive a dividend arises.

Offsetting financial assets and financial liabilities

In a situation where the Group:

- has a legal right to set off the recognized amounts and
- intends to settle on a net basis or realize the asset and settle the liability concurrently,
- The financial asset and the financial liability are offset and presented in the statement of financial position on a net basis.

Impairment of financial assets

The Group assesses expected credit losses („ECL") related to debt instruments measured at amortized cost and fair value through other comprehensive income, regardless of whether there is any indication of impairment.

In case of trade receivables, the Group applies a simplified approach and measures the write-down for expected credit losses in the amount equal to expected credit losses over the whole life using the provisioning matrix. The Group uses its historical data on credit losses, adjusted, where appropriate, for the impact of future information.

In case of other financial assets, the Group measures the expected credit loss write-off at the amount equal to 12 months of expected credit loss. If the credit risk associated with a financial instrument has increased significantly since the initial recognition, the Group measures the expected credit loss write-off for the financial instrument at an amount equal to the expected credit loss over its lifetime.

The Group estimates that the credit risk associated with a financial instrument has increased significantly since its initial recognition if the delay in payment exceeds 60 days. At the same time, the Group estimates that a debtor's default occurs if the delay in payment exceeds 180 days.

The Group creates a write-down of financial assets in the amount of the difference between the value of these assets resulting from the books as at the valuation date and the recoverable amount.

[in mln PLN unless otherwise stated]

ACCOUNTING POLICY

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received from the sale of the asset or paid to transfer the liability in a transaction conducted on normal terms for the sale of the asset between market participants at the measurement date in current market conditions.

The Group measures financial instruments such as derivatives: FORWARD currency contracts and PUT options at fair value at each balance sheet date. Derivatives are recognized as assets when their value is positive and as liabilities when their value is negative.

Profits and losses resulting from changes in the fair value of derivatives that do not meet the hedge accounting principles are directly charged to the net profit or loss of the financial year. The fair value of currency forward contracts is determined by applying current forward rates for contracts with a similar maturity date.

All assets and liabilities which are measured at fair value or their fair value is disclosed in the financial statements are classified in the fair value hierarchy in the manner described below based on the lowest level of input data, which is significant for the measurement to fair value treated as a whole:

LEVEL INPUT OF THE FAIR VALUE HIERARCHY	DESCRIPTION
Level 1 inputs	Quoted prices for identical assets or liabilities in active markets.
Level 2 inputs	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly.
Level 3 inputs	Inputs to measure an asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2019		31.12.2018	
	FINANCIAL ASSETS	FINANCIAL LIABILITIES	FINANCIAL ASSETS	FINANCIAL LIABILITIES
Financial assets measured at amortised cost	880,7	—	541,2	—
Loans granted	82,6	—	37,7	—
Trade receivables	246,5	—	124,4	—
Receivables from fit-outs sale	9,0	—	3,3	—
Cash and cash equivalents	542,6	—	375,8	—
Financial assets measured at fair value through profit or loss	13,2	—	1,3	—
Derivative financial instruments	13,2	—	1,3	—
Financial liabilities measured at amortised cost	—	5 633,9	—	4 710,1
Debt liabilities	—	1 513,4	—	1 016,8
Trade and other liabilities	—	1 158,2	—	864,2
Obligation to return	—	40,2	—	22,2
Lease liabilities	—	2 085,8	—	1 909,2
Obligation to repurchase non-controlling interests	—	801,1	—	878,7
Obligation to pay for aquired company	—	2,5	—	19,0
Obligation to pay to the associate	—	32,7	—	—
Financial liabilities measured at fair value through profit or loss	—	1,0	—	—
Derivative financial instruments	—	1,0	—	—

[in mln PLN unless otherwise stated]

The Group evaluates non-controlling interest acquisition options and options to acquire shares in HR Group at fair value. Their maturity date and value as at the balance sheet date are as follows:

COMPANY	Value as at 31.12.2018	IMPACT OF THE VALUATION OF OPTIONS TO REDEEM NON-CONTROLLING INTERESTS (DEPRECIATED COST)	VALUE AS AT 31.12.2019 BEFORE FAIR VALUE MEASUREMENT	IMPACT OF FAIR VALUE MEASUREMENT	VALUE AS AT 31.12.2019	DATE OF IMPLEMENTATION
eobuwie.pl S.A.	803,6	26,9	830,5	(75,1)	755,4	28.02.2023
Karl Voegele AG	54,5	1,6	56,1	(33,3)	22,8	31.05.2022
DeeZee sp. z o.o.	20,6	0,6	21,2	1,7	22,9	07.01.2020 30.09.2024
Total	878,7	29,1	907,8	(106,7)	801,1	

In addition, the Group carried out the measurement to fair value CALL/PUT compound option to acquire the others (69.45%) of shares in HR Group Holding S.a.r.l. :

COMPANY	Value as at 31.12.2018	VALUE AS AT 31.01.2019 (INITIAL RECOGNITION)	VALUE AS AT 31.12.2019 BEFORE FAIR VALUE MEASUREMENT	VALUE AS AT 31.12.2019	DATE OF IMPLEMENTATION
HR Group	-	116,7	103,6	13,1	31.01.2021

Evaluation of options of eobuwie.pl S.A., Karl Voegele AG and DeeZee sp. z o.o. was recognized in liabilities on account of the obligation to redemption non-controlling interests. Evaluation of Hamm Reno Group options was recognized in the item Investments in associates. Independent experts are involved in the above mentioned valuation of options.

For concluded option agreements to acquire non-controlling interests in companies: eobuwie.pl S.A., DeeZee Sp. z o.o. and Karl Voegele AG, and for the option agreement to acquire shares in HR Group Holding S.à r.l. the forecasts received from the above mentioned companies, which are the main parameter influencing the valuation of financial instruments under the share acquisition option, were revised.

Revaluation of financial instruments on account of the acquisition of options had a positive impact on the Group's financial result and amounted to PLN 2.9 million. This value consists of:

- total impact of the valuation of liabilities resulting from the redemption of non-controlling interests on the Group's financial result:
  - financial income of PLN 108.3 million,
  - financial costs of PLN 1.8 million,
- impact of the valuation of financial instruments due to the redemption of shares in associates in the amount of PLN 103.6 million.

In case of the valuation of options for the redemption of non-controlling shares in eobuwie.pl SA, Karl Voegele AG and DeeZe sp. z o.o., the main factor determining the valuation is the projected level of EBITDA at the dates of option exercise. To determine the value of the future liability, appropriate EDITDA multipliers resulting from investment agreements were applied. Subsequently, the liability is discounted using a 3.25% rate. The liability is measured as at the balance sheet date at amortized cost using a discount rate of 3.25%.

In case of the valuation of the redemption of interests in the Hamm Reno Group, a binomial tree model was used, which was created using the historical volatility of share prices. The tree was created using discount factors calculated from the EUR 1M curve from the Reuters market data source. The value of a compound option is determined through the valuation of call 24M and put options.

[in mln PLN unless otherwise stated]

The table below presents a sensitivity analysis of the valuation of options to acquire non-controlling interests;

COMPANY	INITIAL OPTION VALUE	CHANGE +10%	CHANGE – 10%
eobuwie.pl S.A.	755,4	75,5	(75,5)
Karl Voegele AG	22,8	2,3	(2,3)
DeeZee sp. z o.o.	23,0	1,6	(1,6)
		79,5	(79,5)

The table below presents a sensitivity analysis of the valuation of options to acquire interests in the HR Group;

COMPANY	INITIAL OPTION VALUE	CHANGE +10%	CHANGE – 10%
HR Group	13,2	8,4	(8,5)

Details on options are described in note 6.2 Acquisition of subsidiaries.

The Group measures forward contracts to fair value. As at the balance sheet date, the valuation of forward contracts was PLN – 1.0 million.

The Group also holds investment property valued at fair value.

According to the assessment of the Group, the fair value of other financial assets and liabilities does not differ significantly from their carrying amounts mainly due to their short maturity.

31.12.2019	TOTAL BOOK VALUE	HIERARCHY LEVEL OF FAIR VALUE
Financial assets measured at fair value through profit or loss	13,2	—
Valuation of HRG option	13,2	—
Financial liabilities measured at fair value through profit or loss	1,0	—
Derivative financial instruments	1,0	2

31.12.2018	TOTAL BOOK VALUE	HIERARCHY LEVEL OF FAIR VALUE
Financial assets measured at fair value through profit or loss	1,3	—
Derivative financial instruments	1,3	2

FINANCIAL RISK MANAGEMENT

There are many different financial risks related to the activities carried out by the Capital Group CCC S.A. The Management Board identifies the main ones: the risk of changes in exchange rates, interest rate change, credit risk (described below) and liquidity risk (see note 4.3).

Management policy for these risks and further information on the risks (including credit quality assessment, maximum exposure to credit risk, sensitivity analysis to exchange rate changes) is presented below.

[in mln PLN unless otherwise stated]

EXCHANGE RATE RISK

The Capital Group CCC S.A. operates internationally and therefore is exposed to the risk of changes in exchange rates, in particular USD and EUR in relation to the transactions of purchase of goods made in China, India and Bangladesh and the costs of store rents. The main balance sheet items exposed to the currency risk are trade liabilities (due to purchase of goods), lease liabilities, trade receivables (due to wholesale of goods) and cash. The Group monitors currency exchange rate fluctuations and undertakes actions to minimize the negative impact of currency exchange rate fluctuations e.g. by taking into account these changes in product prices.

The Group does not apply hedging instruments.

The table below presents the Group's exposure to foreign exchange risk:

31.12.2019	TOTAL BOOK VALUE	POSITIONS IN FOREIGN CURRENCY			POSITIONS IN FUNCTIONAL CURRENCY
		USD	EUR	OTHER	
Financial assets measured at amortised cost	871,7	19,5	388,4	242,2	221,6
Loans granted	82,6	—	82,6	—	—
Trade receivables	246,5	16,8	166,7	63,0	—
Cash and cash equivalents	542,6	2,7	139,1	179,2	221,6
Financial assets measured at fair value through profit or loss	—	—	—	—	—
HRG option valuation	—	—	—	—	—
Financial liabilities measured at amortised cost	5 633,8	310,1	674,2	1 099,9	3 549,7
Debt liabilities	1 513,4	—	76,4	69,2	1 367,8
Trade and other liabilities	1 158,2	310,1	245,0	52,0	551,0
Obligation to return	40,2	—	—	—	40,2
Obligation to repurchase non-controlling interests	801,1	—	—	22,8	778,3
Lease liabilities	2 085,8	—	320,1	955,9	809,8
Obligation to pay for aquired company	2,5	—	—	—	2,5
Obligation to pay to the associate	32,7	—	32,7	—	—
Financial liabilities measured at fair value through profit or loss	1,0	—	—	—	1,0
Derivative financial instruments	1,0	—	—	—	1,0

[in mln PLN unless otherwise stated]

31.12.2018	TOTAL BOOK VALUE	POSITIONS IN FOREIGN CURRENCY			POSITIONS IN FUNCTIONAL CURRENCY
		USD	EUR	OTHER	
Financial assets measured at amortised cost	537,9	54,9	241,5	88,2	153,3
Loans granted	37,7	—	—	—	37,7
Trade receivables	124,4	5,8	45,9	29,5	43,2
Cash and cash equivalents	375,8	49,1	195,6	58,7	72,4
Financial assets measured at fair value through profit or loss	1,3	—	—	—	1,3
Derivative financial instruments	1,3	—	—	—	1,3
Financial liabilities measured at amortised cost	4 710,1	389,9	1 558,7	481,0	2 280,5
Debt liabilities	1 016,8	64,1	—	—	952,7
Trade and other receivables	864,2	317,9	165,4	37,3	343,6
Obligation to return	22,2	—	—	—	22,2
Obligation to pay for aquired company	19,0	—	—	—	19,0
Obligation to repurchase non-controlling interests	878,7	—	—	54,5	824,2
Lease liabilities	1 909,2	7,9	1 393,3	389,2	118,8

[in mln PLN unless otherwise stated]

The sensitivity analysis in respect of the foreign exchange risk is presented in the table below. If the exchange rates of financial assets/liabilities denominated in foreign currencies, in particular for USD and EUR during the 12-month period ended 31 December 2019 were higher/lower by PLN 0.05, the impact on the gross result would be as follows:

2019	USD POSITION VALUE	USD EXCHANGE RATE INCREASE/DECREASE		EUR POSITION VALUE	EUR EXCHANGE RATE INCREASE/DECREASE	
		0,05	-0,05		0,05	-0,05
Financial assets measured at amortised cost	19,5	0,3	(0,3)	388,4	4,6	(4,6)
Loans granted	—	—	—	82,6	1,0	(1,0)
Trade receivables	16,8	0,2	(0,2)	166,7	2,0	(2,0)
Cash and cash equivalents	2,7	—	—	139,1	1,6	(1,6)
Financial assets measured at fair value through profit or loss	—	—	—	—	—	—
Other financial assets	—	—	—	—	—	—
Financial liabilities measured at amortised cost	(310,1)	4,1	(4,1)	674,2	8,0	(8,0)
Debt liabilities	—	—	—	76,4	0,9	(0,9)
Trade and other receivables	(310,1)	4,1	(4,1)	245,0	2,9	(2,9)
Obligation to return	—	—	—	—	—	—
Obligation to repurchase non-controlling interests	—	—	—	—	—	—
Lease liabilities	—	—	—	320,1	3,8	(3,8)
Obligation to pay to the associate	—	—	—	32,7	0,4	(0,4)
Impact on net result	—	4,4	(4,4)	—	12,6	(12,6)

2018	USD POSITION VALUE	USD EXCHANGE RATE INCREASE/DECREASE		EUR POSITION VALUE	EUR EXCHANGE RATE INCREASE/DECREASE	
		0,05	-0,05		0,05	-0,05
Financial assets measured at amortised cost	54,9	0,7	(0,7)	241,5	2,8	(2,8)
Loans granted	—	—	—	—	—	—
Trade receivables	5,8	0,1	(0,1)	45,9	0,5	(0,5)
Cash and cash equivalents	49,1	0,6	(0,6)	195,6	2,3	(2,3)
Financial assets measured at fair value through profit or loss	—	—	—	10,1	0,1	(0,1)
Other financial assets	—	—	—	10,1	0,1	(0,1)
Financial liabilities measured at amortised cost	389,9	5,2	(5,2)	1 558,7	18,1	(18,1)
Debt liabilities	64,1	0,9	(0,9)	—	—	—
Trade and other receivables	317,9	4,2	(4,2)	165,4	1,9	(1,9)
Lease liabilities	7,9	0,1	(0,1)	1 393,3	16,2	(16,2)
Impact on net result	—	5,9	(5,9)	—	21,0	(21,0)

[in mln PLN unless otherwise stated]

INTEREST RATE RISK

The CCC S.A. Group is exposed to interest rate risk mainly due to the debt resulting from the concluded credit agreements and bonds issued, cash on bank accounts and loans granted.

The entire debt bears interest at a variable interest rate based on WIBOR and LIBOR. An increase in interest rates affects the cost of debt service, which is partially offset by cash deposits and variable-rate loans granted.

The Capital Group does not use hedging to limit the impact of changes in cash flows resulting from interest rate fluctuations.

The table below presents an analysis of interest rate risk sensitivity, which in the Group's opinion would be reasonably possible as at the balance sheet date.

	AMOUNT VULNERABLE TO RISK OF INTEREST RATE CHANGE %		AS AT 31.12.2019		AS AT 31.12.2018	
	31.12.2019	31.12.2018	+1 P.P.	-1 P.P.	+1 P.P.	-1 P.P.
Cash at bank	521,2	339,6	4,5	(4,5)	3,4	(3,4)
Loans granted	82,6	37,7	0,8	(0,8)	0,4	(0,4)
Other financial assets	—	10,1	—	—	0,1	(0,1)
Derivative financial instruments	(1,0)	1,3	—	—	—	—
Debt liabilities	(1 513,4)	(1 016,8)	(15,0)	15,0	(10,2)	10,2
Obligation to return	(40,2)	(22,2)	(0,4)	0,4	(0,2)	0,2
Obligation to pay for aquired company	(2,5)	(19,0)	—	—	(0,2)	0,2
Obligation to repurchase non-controlling interests	(801,1)	(878,7)	(8,0)	8,0	(8,8)	8,8
Lease liabilities	(2 085,8)	(1 909,2)	(20,9)	20,9	(19,1)	19,1
Impact on net result	—	—	(39,0)	39,0	(34,6)	34,6

If the debt interest rates in the period of 12 months ended 31 December 2019 were 1 p.p. higher/lower, profit for this period would be PLN 10.5 million lower/higher (2018: PLN 6.8 million lower/higher, however, after taking into account the liability due to the obligation to repurchase non-controlling interests and the item of lease liabilities, profit would be PLN 34.6 million lower/higher).

[in mln PLN unless otherwise stated]

CREDIT RISK

Credit risk it is the Group's risk to incur financial losses due to a failure by the customer or counterparty to a financial instrument to meet its contractual obligations. Credit risk is mainly related to the Group's receivables from customers (due to wholesale), loans granted and cash and cash equivalents in bank accounts

The maximum exposure to credit risk at balance sheet date (31 December 2019 and 31 December 2018) is presented in the table below:

	31.12.2019	31.12.2018
Loans granted	82,6	37,7
Trade receivables	246,5	124,4
Cash and cash equivalents	542,6	375,8
Call option valuation	13,2	—
Other financial assets	10,3	10,1
Long-term reciveables	15,5	10,4
Total	910,7	558,4

The write-down for expected credit losses on financial assets is immaterial in the Group's opinion.

Due to the fact that the Group's wholesale customers do not have external ratings, the Group independently monitors the exposure to credit risk associated with receivables from customers through periodic analysis of the financial situation of the counterparties, setting credit limits and collateral promissory note from the franchise recipients.

Credit risk related to financial instruments in the form of cash in bank accounts is limited, due to the fact that the parties to the transaction are banks with high credit ratings received from international rating agencies.

	31.12.2019	31.12.2018
AAA rated banks	—	0,4
AA rated banks	36,1	—
A rated banks	318,0	289,9
BAA rated banks	114,3	—
BA rated banks	—	1,0
B rated banks	—	15,6
CAA rated banks	—	—
CA rated banks	—	—
C rated banks	—	—
Other – not classified [1]	52,8	32,7
Total cash at banks	521,2	339,6

[1] Banks not rated by international rating agencies

MOODY'S CREDIT RISK GRADES	
AAA	The lowest level of credit risk
AA	Very low credit risk
A	Low credit risk
BAA	Moderate credit risk and may possess certain speculative characteristics
BA	Substantial credit risk judged to be speculative
B	High credit risk considered speculative
CAA	Very high credit risk, speculations of poor standing
CA	Highly speculative and likely in, or very near, default, with some prospect of recovery of principal and interest
C	The Lowest rated and typically in default, with little prospect for recovery of principal or interest

6.2 ACQUISITION OF SUBSIDIARIES

ACCOUNTING POLICY

Consolidation principles

Financial statements of subsidiaries, after taking into account adjustments to comply with IFRS, are prepared for the same reporting period as those of the parent company, using consistent accounting policies, based on consistent accounting policies applied to similar economic transactions and events. Adjustments are made in order to eliminate any discrepancies in the applied accounting principles.

All significant balances and transactions between the Group's entities, including unrealized profits resulting from transactions within the Group, were eliminated in full. Unrealized losses are eliminated unless they prove impairment.

The Group recognizes business combinations using the purchase method. The payment made for the acquisition of a business is the fair value of the assets transferred, liabilities incurred towards the previous owners of the acquired entity and equity shares issued by the Group.

The identifiable assets and liabilities and contingent liabilities acquired in a business combination are initially measured at their fair values as at the acquisition date.

As at the acquisition date, the Group recognizes any non-controlling interests in the acquired entity either at fair value or at the value of proportional share (corresponding to the non-controlling interest) in identifiable recognized net assets of the acquired entity.

The goodwill represents the excess of the acquisition price and non-controlling interests over the fair value of the acquired net assets.

Transaction costs are recognized in the financial result when incurred.

Shares and stocks are valued at acquisition price less impairment losses, if any.

The test for value loss is carried out in the case of occurrence of premises for value loss, by comparing the balance sheet value with the higher of two amounts: fair value reduced by sales costs and value in use.

As at the date of acquisition, the Group measures the components of non-controlling interests in the acquired entity in:

– fair value or

– the value of the proportional share of current ownership instruments in the recognized amounts of the acquiree's identifiable net assets.

In case the Group has not acquired 100% of shares in the subsidiary and there is a possibility to purchase non-controlling interests, the purchase option is considered in the context of IFRS 9. If the liability for the minority buy-out of shares in subsidiaries is a variable price, calculated based on EBITDA of that company, it is considered that due to such price structure it is highly probable that risks and benefits have not been transferred to the parent company as at the date when the option arises, therefore the financial liability for the put option decreases equity.

ACQUISITION OF HR GROUP HOLDING S.A.R. L.

According to the information released in the Current Report No. 5/2019 of 31.01.2019, on 30-31.01.2019, considering that conditions precedent set out in the share purchase agreements have been satisfied transaction of acquisition a minority stake in HR Group Holding S.à r.l. with its registered office in Luxembourg ("HR Group" or "HRG") and disposal of 100% of shares in CCC Germany GmbH, the subsidiary of CCC S.A.

Along with the closing of the transaction on 31 January 2019, the other transaction agreements concluded by the Company, about which the Company informed in the current report no. 52/2018 of 24 November 2018, i.e. the Operational Contribution Agreement, the shareholders' agreement and the option agreement, came into force.

In performance of the operational contribution agreement, on 31 January 2019, the Company and HR Group entered into a loan agreement on the basis of which HR Group will be granted a loan up to EUR 41.5 million (discounted amount up to EUR 40.94 million) which will bear interest at 8% per annum.HR Group will use such resources to effect the integration of CCC Germany GmbH with HR Group consisting in the closing down of selected loss-making shops run by CCC Germany GmbH, the rebranding of selected shops operated by CCC Germany under the "CCC" brand to the "RENO" brand, which will continue to operate, and the integration of the remaining operations of CCC Germany GmbH headquarters with HR Group. The loan will be disbursed in tranches, in accordance with the conditions provided for by the parties in the operational contribution agreement and the loan agreement.

On the date of the transaction, CCC S.A. received a CALL option to acquire the rest (69.45%) of HR Group Holding S.a.r.l. shares for EUR 53.6 million in an option with a maturity of 6 months (hereinafter – „CALL 6M option") and for EUR 74.6 million in an option with a maturity of 24 months (hereinafter – „CALL 24M option"). The Management Board decided not to exercise the call option with a maturity of 6 months.

In addition, CCC S.A. issued a PUT option to the owners of HRG to sell (to CCC S.A.) 0.32% of the preference shares of HR Group Holding S.a.r.l. for an exercise amount of EUR 4.5 million.

In connection with the refinancing of HR Group's debt transaction conducted in February 2020, the parties agreed on an amend their contractual arrangements in respect of CALL and PUT options granted to each other so that they terminated the PUT option agreement entitling HRG to sell 0.32% of preference shares in HR Group Holding S.a.r.l. to CCC S.A. for the amount of EUR 4.5 million, and the right of CCC S.A. to execute call option (CALL) to acquire the remaining (69.45%) of HR shares Group Holding S.a.r.l. for EUR 74.6 million with a 24-month maturity („CALL 24M option") was materially limited.

As a result of the transaction, the Issuer acquired in aggregate 30.55% shares in the share capital of HR Group carrying in total 30.55% of the total number of votes at the Shareholders' Meeting.

The price for the acquisition of 30.55% of HRG shares by CCC was set at EUR 11.5 million, which is PLN 49.4 million as of the acquisition date.

Allocation of the purchase price to the acquired assets and liabilities under the above-mentioned transactions has been completed. The value of the acquired tangible fixed assets and intangible assets was shown according to their carrying amount (fair value).

PAYMENT METHODS AND INSTRUMENTS ACQUIRED

The fair value of the payment transferred amounted to EUR 57.0 million (PLN 244.4 million), which is equal to the total amounts:

	(IN EUR THOUSAND)	(IN PLN THOUSAND)
Acquisition of ordinary shares in HRG from Flo and Caption	4,7	21,0
Acquisition of preference shares of HRG from Flo and Caption	21,2	90,1
Granting of an operational contribution for the restructuring of CCC Germany [1]	40,9	175,2
Transaction costs	1,7	7,1
Disposal of 100% of shares in CCC Germany GmbH [2]	(10,1)	(43,2)
Disposal of net assets of CCC Germany GmbH[3].	(1,4)	(5,8)
Total	57,0	244,4

[1] In 2019 the CCC Group made payments to HRG in the amount of EUR 31.5 million (PLN 135.6 million). Furthermore, the Group has a commitment to provide a contribution of PLN 32.7 million.

[2] Fair value measurement of 100% net assets of CCC Germany GmbH was updated as at 31.01.2019 and changed compared to 31.12.2018 by EUR 7.6 million (PLN 31.6 million). The costs related to revaluation were presented in discontinued operations as other operating costs.

[3] Disposal of net assets of CCC Germany GmbH as of 31.01.2019 recognised has been made as an adjustment to the purchase price of HR Group.

Fair value of the instruments acquired amounted to 57.0 million EUR (PLN 244.4 million), which corresponds to the sum of the amounts:

	(IN EUR MLN)	(IN PLN MLN)
Conversion of preference shares into debt to HRG[1]	18,3	78,3
Total call/put option[2]	27,2	116,7
Share 30.55% in HR Group Holding S.a.r.l.	11,5	49,4
TOTAL	57,0	244,4

[1] Discounted amount of CCC's liabilities to HRG with a nominal value of EUR 21.2 million. CCC S.A. paid EUR 21.2 million for the preference shares in HRG (at the time of the transaction, these shares were converted into an unconditional receivable of CCC towards HRG with a maturity of 30 September 2024). The claim in the amount of PLN 78.0 million was presented in the balance sheet item „Loans granted", after taking into account the reversal of the discount.

[2] The total value of the call/put option as at 31 December 2019 amounted to EUR 3.1 million (PLN 13.3 million) and is presented in the balance sheet item „Other financial assets". Performance of the option valuation is presented in financial expenses. Between the date of its recognition and the balance sheet date, the value of the option dropped by PLN 103.6 million.

FAIR VALUE OF ACQUIRED ASSETS AND LIABILITIES

The table below presents the fair values of the acquired net assets of the HR Group by main categories.

	FAIR VALUE AS AT 31.01.2019	
	(IN EUR THOUSAND)	(IN PLN THOUSAND)
Assets		
Trademark 'RENO'	73 202,6	313 321,7
Relationships with wholesale customers	12 053,5	51 591,40
Other intangible assets	7 401,8	31 681,20
Tangible fixed assets	257 444,6	1 101 914,40
Non-current receivables	15,0	64,0
Non-current investments	88,0	376,7
Deferred tax assets	68 626,7	293 735,9
Inventories	111 979,0	479 292,5
Current receivables	13 424,6	57 459,9
Current investments	3 884,7	16 627,4
Other receivables	5 380,7	23 030,4
TOTAL ASSETS	553 501,2	2 369 095,8
Liabilities		
Provisions for liabilities	2 608,7	11 165,9
Deferred tax liabilities	93 030,1	398 187,2
Non-current liabilities	324 855,2	1 390 445,2
Current liabilities	70 626,2	302 294,2
TOTAL LIABILITIES	491 120,2	2 102 092,5
NET ASSETS	62 381,1	267 003,4
Share of CCC	17 418,8	74 556,1

PROFIT ON A BARGAIN ACQUISITION

The profit on a bargain acquisition was calculated as follows:

	(IN PLN THOUSAND)
Value of shares in HRG	49,4
Value of acquired net assets (30.55%)	74,6
Profit from bargain acquisition	(25,2)

Profit from a bargain acquisition was presented in the statement of financial position under investments in associates, while in the statement of comprehensive income under share in profits (losses) of associates. The economic situation of the company at the moment of acquisition affected a certain level of the price offer and the valuation of the entity during the negotiation and conclusion of the transaction. It was a direct cause of the above described above profit from a bargain purchase. Additionally, the bargain acquisition profit described above takes into account the necessary actions that the Group will have to take to improve its economic efficiency

The Revenue of HR Group Holding S.a.r.l. (as the entire Group) from 31 January 2019 to 31 December 2019 amounted to PLN 1 727.5 million. The net loss of HR Group Holding S.a.r.l. amounted to PLN 158.7 million in the same period, of which PLN 48.5 million was recognized in the consolidated statement of financial position and other comprehensive income as 30.55% share in profits/losses of associated companies. The fair value of the acquired receivables does not differ from their book values.

ACQUISITION OF GINO ROSSI S.A.

On 25.02.2019. The Management Board of CCC S.A. informed about the completion of subscriptions on 15.02.2019 for the sale of shares of Gino Rossi S.A. based in Słupsk. The Company announced calls to subscribe for the sale of 50,333,095 ordinary bearer shares, i.e. all shares issued by Gino Rossi S.A., entitling to 100% of the total number of votes at the General Meeting of Shareholders, at the price of PLN 0.55 per share.

On 20 February 2019, as a result of the settlement of the call to purchase shares CCC S.A. acquired 33,283,510 shares representing in total 66.13% of the share capital of Gino Rossi entitling to 33,283,510 votes at the General Meeting of Gino Rossi representing 66.13% of the total number of votes at the General Meeting of Gino Rossi. The acquisition of control took place on 20 February 2019, along with the settlement of the call to purchase the company's shares.

The purchase price was PLN 0.55 per share, therefore the payment amounted to PLN 18,311 thousand.

Furthermore, on 27 February 2019 CCC paid PLN 5,339 thousand (including PLN 59 thousand of interest accrued) to the former owners of Gino Rossi S.A. as repayment of their promissory note receivables arising from promissory notes issued by Gino Rossi. CCC committed to redeem the promissory notes under the condition precedent of completion and settlement of the tender offer in the agreement concluded on 7 December 2018 with the previous owners, in which they committed to submit subscriptions for the sale of shares held in Gino Rossi S.A. (representing in total 30.15% of shares in the share capital) as part of the call, and CCC agreed to repay their receivables under the promissory note. This transaction was not included in the acquisition price.

FAIR VALUE OF ACQUIRED ASSETS AND LIABILITIES

The table below presents the provisional fair values of Gino Rossi's acquired net assets by main categories.

FAIR VALUE AS AT 20.02.2019	(IN PLN THOUSAND)
Assets	
Trademark 'Gino Rossi'	22 795,0
Other intangible assets	1 877,0
Rights of use	45 674,0
Tangible fixed assets	37 327,0
Other non-current receivables	601,0
Investment property	5 274,0
Deferred tax assets	5 053,0
Inventories	55 043,0
Trade receivables	808,0
Other current receivables	3 397,0
Cash and cash equivalents	2 529,0
TOTAL ASSETS	180 378,0
Liabilities	
Provisions	3 570,0
Deferred tax liabilities	8 322,0
Trade liabilities	30 924,0
Current share of interest-bearing loans and borrowings	56 458,0
Bill liabilities	5 339,0
Lease liabilities	45 638,0
Other liabilities	24 906,0
TOTAL LIABILITIES	175 157,00
NET ASSETS	5 221,0
Remuneration due to acquisition	18 311,0
Acquired cash	2 529,0
Cash expenditure on acquisition	15 782,0

The fair value of acquired receivables does not differ from carrying amounts.

Should Gino Rossi S.A. be consolidated as of 1 January 2019, the consolidated statement of financial results and other comprehensive income would show „pro-forma" revenue of PLN 155.5 million and „pro-forma" loss of PLN – 29.1 million (including discontinued operations, loss of PLN – 7.7 million).

The revenue of Gino Rossi S.A. recognized in the consolidated statement of financial results and other comprehensive income from 20th February 2019 (to 31st December 2019) amounted to PLN 140.7 million. Moreover, Gino Rossi S.A. made a net loss of PLN 19.1 million within the same period.

The fair value of trade receivables is PLN 0.8 million. None of the items of trade receivables were impaired. It is expected that it will be possible to recover the full amount resulting from the contracts.

Transaction costs of PLN 0.7 million were recognized as administrative expenses in the statement of comprehensive income and as part of operating cash flows in the statement of cash flows.

CALCULATION OF GOODWILL

The goodwill was calculated as follows:

KALKULACJA WARTOŚCI FIRMY	(IN PLN THOUSAND)
Payment transferred	18 311
Non-controlling interest at fair value	8 695
Net value of assets and liabilities of Gino Rossi	(5 221)
Goodwill	21 785

The goodwill in the amount of PLN 21.8 million resulting from the acquisition is primarily composed of synergies and economies of scale expected from the merger of CCC and Gino Rossi.

DISPOSAL OF SIMPLE 10 MAY 2019

On 10 May 2019, the Management Board of Gino Rossi S.A. reported on concluding an agreement with FORUM 82 Fundusz Inwestycyjny Zamknięty with its registered office in Kraków represented by FORUM Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Kraków on the conditional sale of 100% of shares in the share capital of Simple Creative Products S.A. with its registered office in Warsaw. The sale price of the Simple Shares is PLN 1.00. Therefore, for the purpose of accounting for the acquisition of Gino Rossi S.A., the Group valued the net assets of Simple at PLN 1.00.

ACQUISITION OF DEBT OF GINO ROSSI S.A.

On 18 December 2018 CCC acquired from PKO BP S.A. the bank's liabilities under loans granted to Gino Rossi in the total amount of PLN 68.5 million for the price of PLN 37.7 million.

PLN. Additionally, CCC purchased the bank's receivables under the guarantees granted (the actual payments made by CCC under the guarantees amounted to PLN 1.8 million). In the process of allocation of the purchase price, the difference between the nominal value of the receivables and the purchase price paid was recognized as an adjustment of Gino Rossi's liability to fair value.

The fair value of liabilities of Gino Rossi towards CCC in the allocation of the purchase price was set at PLN 37.7 million.

INCREASE IN CAPITAL OF GINO ROSSI S.A.

On 24 May 2019, CCC concluded an agreement with Gino Rossi S.A. to acquire shares in the increased share capital of Gino Rossi. Under the agreement, CCC accepted the offer to take up newly created shares in the share capital of Gino Rossi, i.e. Series K ordinary registered shares with a par value of PLN 0.50 each and a total par value of PLN 60.3 million, at an issue price of PLN 0.50 per share and a total issue price of PLN 60.3 million. The capital increase is a result of the conversion of the debt of Gino Rossi S.A. to CCC S.A.

As a result of this transaction the Group held a total of 153,783,510 shares constituting 90.02% of the share capital of Gino Rossi S.A. and entitling to a total of 153,783,510 votes at the General Meeting of Gino Rossi S.A., i.e. 90.02% of the total number of votes in Gino Rossi.

SQUEEZE-OUT OF NON-CONTROLLING SHAREHOLDERS OF GINO ROSSI S.A.

On 12 July 2019 there was a settlement of a squeeze-out of shares of Gino Rossi belonging to all minority shareholders of Gino Rossi announced on 9 July 2019 pursuant to Article 82 (1) of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (Journal of Laws of 2018, item 512, as amended) („Squeeze-Out").

The subject of the squeeze-out were all shares in Gino Rossi owned by all minority shareholders of Gino Rossi, i.e. 17,049,585 ordinary bearer shares with a nominal value of PLN 0.50 (fifty groszy) each, representing approx. 9.98% of the share capital of Gino Rossi and entitling to 17,049,585 votes at the general meeting of shareholders of Gino Rossi, which corresponds to 9.98% of the total number of votes in Gino Rossi.

ACQUISITION OF DEEZEE SP. Z O.O.

On 23.10.2018, the Capital Group CCC S.A. (through CCC Shoes and Bags sp. Z o.o.) acquired 51% shares in DeeZee Sp. Z o.o. with its registered office in Kraków (Poland) („DeeZee"), the acquired shares constitute 51% of the share capital of DeeZee and represent 51% of votes at Meeting of Shareholders of the Company. The payment for shares amounted to PLN 13.0 million payable in cash.

The CCC Group took control over DeeZee at the time of acquisition, gaining control of its operating and financial activities and obtaining the exclusive right to change Management Board members. The CCC Group is actively involved in the day-to-day operations of DeeZee and strategic planning.

In addition, the investment agreement provides for 2 options for the CCC Group to acquire the remaining 49% of DeeZee shares. In the event of exercise of the put option (by DeeZee) or call option (by the CCC Group), the CCC Group will be required to acquire a 49% interest under two possible scenarios. These two scenarios give the opportunity to acquire

- in Option I 24% stake in the share capital of DeeZee for a price of PLN 7 million, and
- in option II the remaining 25% of shares for the price specified as:
  - 25% of the amount calculated as twelve times EBITDA for 2021 and 2023 less net debt, or in case of breach of an obligation under the investment agreement,
  - by 25% of the amount calculated as sixteen times the EBITDA for 2021 and 2023 less net debt.

The date of exercise of the call I option has been changed in relation to the one initially resulting from the investment agreement signed between the entities, as described below. The call II option is exercisable from 1 July 2024 but not later than 30 September 2024.

The initiative of exercising the option by one of the parties will result in settlement of the option. The settlement price is the same for both parties to the agreement. The obligation to purchase a non-controlling block of shares resulting from the put option was recognized in the consolidated financial statements at the present value estimated at the moment of recognition of remuneration for the remaining shares and recognized in equity (retained earnings) in the amount of PLN 20.5 million.

The liability was estimated based on 25% of the projected difference for DeeZee between EBITDA multiplied by factor 12 and net debt for 2021 and 2023

The nominal value of the liability resulting from the multiplier of 25% x (12 x EBITDA – net debt) amounted to PLN 23.2 million as at the acquisition date and PLN 18.9 million as at the balance sheet date.

The nominal amount calculated in the above manner was discounted using the interest rate at the level of the average debt cost for CCC S.A. The value of liabilities as at the acquisition date was PLN 20.3 million and as at the balance sheet date amounted to PLN 23,0 million.

The liability for minority buy-back of shares in DeeZee is a variable price, calculated based on EBITDA and net debt of this company. Due to such a price structure, it is probable that the risks and rewards related to the non-controlling portfolio of shares covered by the option have not been transferred to the CCC Group as at the date of issue of the option. Therefore, the financial liability under the put option reduces equity.

DeeZee has been operating on the Polish online footwear market since 2005 and is one of the most recognizable independent online stores in this segment. This transaction is the next stage of e-commerce development, in line with the CCC Group strategy – entering one of the most promising markets, in particular in terms of achieved margins and profitability.

Goodwill in the amount of PLN 0.6 million resulting from the acquisition consists mainly of synergies and economies of scale expected as a result of the merger of CCC and DeeZee activities as well as the acquired DeeZee customer base.

None of the elements of goodwill recognized shall be deductible.

The details of the temporarily estimated fair value of the acquired net assets, goodwill and purchase price as at the date of acquisition of control are presented below (in million PLN):

FAIR VALUE	(IN PLN MLN)
Recognized values of assets and liabilities acquired	
Tangible fixed assets	0,1
Assets under the right of use	1,2
Intangible assets	5,3
Deferred tax assets	0,7
Inventories	3,7
Trade and other receivables	1,2
Cash and cash equivalents	13,9
Trade and other liabilities	(0,6)
Lease liabilities	(1,2)
Total net identifiable assets	24,3
Established goodwill	0,6
Non-controlling interests	(11,9)
Total	13,0
Remuneration due to acquisition	
Paid in cash	13,0
Cash and cash equivalents acquired	13,9
Cash expenditure on acquisition	(0,9)

The fair value of the acquired financial assets does not differ from the carrying amount and includes trade and other receivables in the amount of PLN 1.2 million.

The process of allocation of the acquisition price to the acquired assets and liabilities is completed.

Fair value of net assets presented in a corresponding note in the annual consolidated financial statements as at 31 December 2018 was adjusted by PLN 11.1 million due to a decrease in valuation of acquired intangible assets by PLN 3.9 million, increase in inventories by PLN 0.1 million, adjustment of cash and cash equivalents by PLN 13.1 million, decrease in trade payables and other liabilities by PLN 1.1 million, and recognition of deferred income tax asset of PLN 0.7 million.

The revenue of DeeZee Sp. z o.o. included in the consolidated statement of profit and loss and other comprehensive income since 23 October 2018 amounted to PLN 4.8 million. In addition, DeeZee Sp.z o.o. reported a net loss of PLN 1.3 million during the same period. If DeeZee Sp.z.o.o. had been consolidated as of 1 January, 2018, the consolidated statement of financial results and other comprehensive income would have shown a pro-forma revenue of PLN 16.1 million and a pro-forma loss of PLN 0.9 million.

[in mln PLN unless otherwise stated]

EXERCISE OF THE CALL I OPTION

On 4 November 2019, the Management Board of CCC Shoes and Bags Sp. z o.o. concluded an agreement to the investment agreement for the acquisition of shares of Deezee Sp. z o.o., according to which the CCC Group accepts the offer to acquire 24% of shares, with the restriction that the payment date of the Option Price I is extended to 7 January 2020. Therefore, the governing effect in the form of the transfer of ownership of shares to CCC Shoes and Bags Sp. z o.o. will occur upon payment of the Option Price I. On 7 January 2020 the Group exercised call option (call I) for acquisition of 24% of shares in the share capital of DeeZee Sp. z o.o. for PLN 7 million.

6.3 ASSOCIATED ENTITIES

Associated entities are those on which the parent company directly or through subsidiaries exercises significant influence and which are not its subsidiaries.

The financial year of the associates and the parent company is different for the Hamm Reno Group (ending 30.09) and the same for Pronos sp. z o.o. and LFT Beheer B.V.

The Group's investments in the associated companies are consolidated using the equity method and presented in the consolidated financial statements. According to the equity method, the investment in the associated entities shall initially be recognised at cost, and subsequently adjusted to reflect the Group's share in the financial result and other comprehensive income of the associated entity.

If the Group's share in the losses of the associated entity exceeds the value of its shares in this entity, the Group ceases to recognise its share in further losses. Additional losses are recognized only to the extent corresponding to legal or customary obligations assumed by the Group or payments made on behalf of the associated entity.

An investment in associated entity is recognised using the equity method from the date on which the entity becomes an associate. At the date of the investment in an associate, the amount by which the costs of the investment exceed the Group's share of the net fair value of the entity's identifiable assets and liabilities is recognised as goodwill and included in the carrying amount of the investment. The amount by which the Group's share in the net fair value of identifiable assets and liabilities exceeds the costs of the investment is recognised directly in the financial result in the period in which the investment was made.

The requirements of IFRS 9 are applied when assessing the need to recognise the impairment of the Group's investment in an associate. Where necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset, comparing its recoverable amount with its carrying amount.

Recognised impairment is included in the carrying amount of the investment. A reversal of that impairment is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group ceases to apply the equity method on the date when the investment ceases to be its associate and when it is classified as held for sale. The difference between the carrying amount of the associate or joint venture as at the date of ceasing to apply the equity method and the fair value of retained shares and proceeds from disposal of a part of shares in this entity is taken into account when calculating the profit or loss on disposal of the associate.

ASSOCIATES OF CCC S.A.	HEADQUARTERS/COUNTRY	TYPE OF BUSINESS ACTIVITY	SHARE AS OF 31.12.2019	SHARE AS OF 31.12.2018
HR Group Holding S.a.r.l.	Luxembourg	Commercial	30,55%	nd

[in mln PLN unless otherwise stated]

	31 DECEMBER 2019	31 DECEMBER 2018
Value of investment in an associate calculated using the equity method	4,1	49,4
Current assets	637,5	612,3
Non-current assets	197,3	186,1
Current liabilities	399,8	322,9
Non-current liabilities	474,9	370,4

	31 DECEMBER 2019
Revenue	1 710,08
Net profit/loss for the financial year	(144,6)

6.4 DISCONTINUED OPERATIONS

ACCOUNTING POLICY

Discontinued operations and assets held for sale

The Group classifies fixed assets as assets held for sale if their carrying amount is recovered through a sale transaction and not through their further use. The condition for including assets in this group is the active search for a buyer by the Group and a high probability of selling these assets within one year from the date of their classification, as well as the availability of these assets for immediate sale. These assets are measured at carrying value or fair value less costs of sales, assuming a lower of these amounts for valuation.

Discontinued operations are part of the Group's operations, which is a separate major line of business or geographic area of operations that is sold or designated for sale or issue, or is a subsidiary acquired exclusively for resale. Classification for discontinued operations is made as a result of disposal or when the activity meets the criteria of classification as intended for sale. If the activity is classified as discontinued, the comparative data to the profit and loss account are converted as if the operation was discontinued at the beginning of the comparative period.

[in mln PLN unless otherwise stated]

NET PROFIT (LOSS) ON DISCONTINUED OPERATIONS

NOTE		1.2019-12.2019	CCC GERMANY GMBH	SIMPLE S.A.	1.2018-12.2018	CCC GERMANY GMBH	SIMPLE S.A.
	Discontinued operations						
2	Sales revenue	14,2	11,8	2,4	217,8	217,8	—
3.1	Cost of goods sold	(11,5)	(6,3)	(5,2)	(90,1)	(90,1)	—
	GROSS PROFIT ON SALES	2,7	5,5	(2,8)	127,7	127,7	—
3.1	Cost of operating stores	(20,6)	(16,0)	(4,6)	(182,4)	(182,4)	—
3.1	Other cost of sale	(1,7)	(1,7)	—	(31,0)	(31,0)	—
3.1	Administrative expenses	(1,7)	(0,6)	(1,1)	(7,9)	(7,9)	—
3.2	Other operating costs and income	(23,6)	(31,6)	7,7	(66,2)	(66,2)	—
	Share of net profit (loss) of associates accounted for using the equity method	—	—	—	—	—	—
	Profit (loss) on operating activity	(45,2)	(44,4)	(0,8)	(159,8)	(159,8)	—
3.2	Finance income	0,1	—	0,1	—	—	—
3.2	Finance costs	(0,2)	(0,1)	(0,1)	(5,2)	(5,2)	—
	Profit (loss) before tax	(45,3)	(44,5)	(0,8)	(165,0)	(165,0)	—
3.4	Income tax	(0,6)	(0,6)	—	(1,8)	(1,8)	—
	NET LOSS FROM DISCONTINUED OPERATION	(45,9)	(45,1)	(0,8)	(166,8)	(166,8)	—
	Other comprehensive income from discontinued operation	—	—	—			—
	Attributable to be reclassified to profit – exchange rate differences upon conversion of reports of foreign entities	(0,3)	(0,3)	—	(0,4)	(0,4)	—
	Total net comprehensive income	(0,3)	(0,3)	—	(0,4)	(0,4)	—
	TOTAL COMPREHENSIVE INCOME FROM DISCONTINUED OPERATION	—	—	—			—
	Total comprehensive income from discontinued operation attributable to shareholders of the parent company:	(46,2)	(45,4)	(0,8)	(167,2)	(167,2)	—

[in mln PLN unless otherwise stated]

MAIN GROUPS OF ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS AT FAIR VALUE

	31.12.2019	31.12.2018
Right of use assets	—	494,8
Non-current assets	—	494,8
Income tax receivables	—	—
Other receivables	—	8,6
Current assets	—	8,6
Total assets of disposal group held for sale	—	503,4
Lease liabilities	—	415,4
Non-current liabilities	—	415,4
Trade and other liabilities	—	8,6
Provisions	—	11,7
Lease liabilities	—	82,5
Current liabilities	—	102,8
Total liabilities of disposal group held for sale	—	518,2
Net assets	—	(14,8)

CASH FLOWS FROM DISCONTINUED OPERATION

	1.2019-12.2019	1.2018-12.2018
Net cash flows from operating activities	(11,4)	(92,9)
Net cash flows from investing activities	—	(10,4)
Net cash flows from financing activities	—	—
TOTAL NET CASH FLOWS FROM DISCONTINUED OPERATION	(11,4)	(103,3)

As at the balance sheet date, the Group has no assets classified as held for sale and has not discontinued any new operations.

[in mln PLN unless otherwise stated]

DISPOSAL OF THE SUBSIDIARY CCC GERMANY GMBH

From 30 to 31 January 2019 CCC S.A. carried out a disposal of 100% of shares in CCC Germany GmbH. The Group presented the assets and liabilities of the consolidated company CCC Germany GmbH based in Germany in the statement of financial position under fixed assets held for sale and liabilities relating to assets held for sale as at 31 December 2018. The Group held 100% of the shares in the company. In the previous years, CCC Germany GmbH had conducted commercial activities (retail sale of shoes, handbags, shoe care products, small clothing accessories in stores). The company, after the disposal of 100% of the shares by CCC S.A. will continue its activity of retail footwear sales under the RENO brand. The transaction was connected with the simultaneous acquisition of a minority stake in HR Group Holding sarl based in Luxembourg. As a result of the acquisition transaction, CCC S.A. acquired a total of 30.55% of shares in the share capital of HR Group, entitling to 30.55% of the total number of votes at the General Meeting of Shareholders. The Management Board made an analysis and assessment, recognizing that on the date of signing the agreement on the sale of 100% of shares in CCC Germany GmbH, the Group ceased the control the company. Thus, the Group will not be able to influence the operating and financial activities of CCC Germany GmbH.

DISPOSAL OF SIMPLE CREATIVE PRODUCTS S.A.

On 15 May 2019, Gino Rossi S.A. carried out a disposal of 100% of shares in Simple Creative Products S.A. As at the time of acquisition of the Gino Rossi Group by CCC, Simple Creative Products S.A. was intended for sale, with the net asset value of PLN – 41.9 million. The Management Board of CCC did not intend to continue the activities conducted by Simple, therefore, in order to settle the acquisition of Gino Rossi group, it was assumed that the fair value of assets and liabilities held for sale is equal to the sale price, i.e. PLN 1.

The table below presents the result of the disposal of CCC Germany and Simple:

PROFIT OR LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS	30.06.2019 CCC GERMANY GMBH	30.06.2019 SIMPLE
Disposal of assets classified as held for sale	(5,8)	(13,7)
Profit on disposal of tangible non-current assets [1]	5,8	13,7
Sales price[2]	—	—

[1] Gain on disposal of CCC Germany adjusts the value of the investment to HR Group;

[2] CCC Germany's selling price was EUR 1. Selling price of Simple amounted to 1 PLN.

[in mln PLN unless otherwise stated]

6.5 TRANSACTIONS WITH RELATED ENTITIES

In the periods presented the Group made the following transactions with related entities:

	31.12.2019	31.12.2018
Transactions in the fiscal year:		
Sales	10,3	4,6
MGC INWEST Sp. z o. o.	—	—
ASTRUM Sp. z o. o.	10,3	4,6
Cuprum Arena Galeria Lubińska	—	—
ULTRO Sp. z o.o.	—	—
Purchase of services	7,6	8,3
MGC INWEST Sp. z o. o.	—	—
ASTRUM Sp. z o. o.	—	—
Cuprum Arena Galeria Lubińska	2,5	2,7
ULTRO Sp. z o.o.	5,2	5,5
Transactions in the fiscal year:		
Receivables	1,8	1,7
MGC INWEST Sp. z o. o.	—	—
ASTRUM Sp. z o. o.	1,8	1,7
Cuprum Arena Galeria Lubińska	—	—
ULTRO Sp. z o.o.	—	—
Liabilities	4,1	0,8
MGC INWEST Sp. z o. o.	—	—
ASTRUM Sp. z o. o.	0,1	—
Cuprum Arena Galeria Lubińska	3,1	0,4
ULTRO Sp. z o.o.	0,9	0,4

Transactions with related entities were concluded under market conditions.

REMUNERATION OF THE KEY MANAGEMENT PERSONNEL

IN '000 PLN	FIXED REMUNERATION	PROGRAM OF PAYMENTS BASED ON SHARES – FAIR VALUE AT THE MOMENT OF GRANTING	OTHER (BONUSES)	TOTAL
31.12.2019				
Members of Management Board	2 961,5	—	1 030,0	3 991,5
Supervisory Board	444,8	—	—	444,8
TOTAL	3 406,3	—	1 030,0	4 436,3
31.12.2018				
Members of Management Board	3 460,0	560,0	1 150,0	5 170,0
Supervisory Board	447,0	—	—	447,0
TOTAL	3 907,0	560,0	1 150,0	5 617,0

6.6 SHARE-BASED PAYMENTS

ACCOUNTING POLICY

The Group runs a program of benefits based on shares settled in capital instruments, under which the entity receives services of employees in exchange for equity instruments (options) of the Group. The fair value of employee's services received in exchange for granting options is recognized as an expense over the period of conferring rights to exercise the option in correspondence to equity – retained earnings.

The total amount subject to recognition in costs is determined by referring to the fair value of options granted at the date of granting the option:

- taking into account any market conditions (for example entity's share price);
- excluding the impact of any related work experience and non-market conferring rights (for example, sales profitability, the goals connected with growth in sales and the indicated period of the compulsory employment of the employee in the unit); and
- taking into account the impact of any conditions unrelated to conferring the rights (for example, the requirement by the current staff to keep received instruments for a specified period).

At the end of each reporting period, the entity revises the made estimates of the expected number of options to which rights are to be conferred as a result of the conditions of conferring rights of a non-market. The Group presents the impact of a possible revision of the original estimates in the report on the financial result, with a corresponding adjustment to equity.

In addition, in certain circumstances, employees can provide services before the date of granting them the stock options. In this case, the fair value of at the date of granting stock options is estimated to recognize costs during the period from commencement of the service by the staff to the actual date of granting them the options.

Upon exercise of the options, an entity issues new shares. The funds obtained after the deduction of any costs that can be directly attributable to the transaction, increase the share capital (nominal value) and the surplus of the issue price of shares over their nominal value.

Social security contributions payable in connection with the granting of stock options are considered an integral part of the benefit granted and the cost is treated as a transaction settled in a form of cash.

[in mln PLN unless otherwise stated]

On 13 April 2017, the Issuer's Supervisory Board adopted a resolution on giving the positive opinion and conditional approval of the three-year Incentive Scheme presented by the Issuer's Management Board for 2017-2019 („Scheme"), subject to a positive decision of the Issuer's General Meeting regarding conditional share capital increase of the Issuer and issuance of shares and subscription warrants for the implementation of the Scheme. The main objectives of the scheme are additional, long-term motivation of the CCC Capital Group managers to implement the Group's strategy in 2017-2019 and taking actions and efforts aimed at further development of the Group and its perspectives for 2020 and another years – as a consequence of increasing the value of the Company's shares and the value for shareholders. The Scheme provides for the issuance of no more than 1,174,920 Warrants and no more than 1,174,920 Series F shares. The persons entitled to take it up are the members of the Management Board, members of the management board of subsidiaries, members of the management of the company, members of the management of subsidiaries, however the warrants cannot be offered to the persons directly or indirectly holding at least 10% of the Company's stake. The condition for granting the rights to subscribe for the Warrants is that the persons concerned obtain positive performance review for 2017-2019. The total number of persons entitled under the incentive scheme will not exceed 149 people. The scheme assumes minimum EBITDA thresholds (which condition the launch of the Scheme tranches) at PLN 550, 650 and 800 million for 2017, 2018 and 2019 respectively, that is, a total of not less than PLN 2 billion in this period.

In 2018 and 2019, the condition for reaching the EBITDA target, which was one of the conditions for granting the rights, was not met. The Group assumed that the changes related to the implementation of IFRS 16, which directly affect the level of EBITDA (recognition of depreciation) will not affect the conditions for granting the rights.

THE MAIN TERMS OF THE PROGRAM:	TRANSHE 2019	TRANSHE 2018	TRANSHE 2017
Date of conferring rights		26.08.2017	
Number of employees covered by the program		149 persons	
The value of the program by date of conferring rights		PLN 93,3 million	
Number of warrants granted	0 pcs..	705.960 pcs.	1.097.600 pcs.
The value of a warrant by the date of by date of conferring rights	211,42 PLN	211,42 PLN	211,42 PLN
Cost included in the financial result in 2019	PLN (12,2) million	—	—
Cost included in the financial result in 2018	—	PLN 25,4 million	—
Cost included in the financial result in 2017	—	—	—
Cumulative amount recognised in equity as at 31 December ("retained earnings")	PLN 21,4 million	PLN 33,6 million	PLN 8,2 million
Period of conferring rights		from 8 June 2017 to 30 June 2020	
Period of execution of warrants to which rights are conferred		until 30 June 2024	

[in mln PLN unless otherwise stated]

SIGNIFICANT PARAMETERS ADOPTED IN THE VALUATION MODEL WERE:	VALUE OF THE PARAMETER
Valuation model of warrants	Monte-Carlo simulation
Number of warrants granted	1.174.920 pcs.
Share price at the grant date	212,56 PLN
The exercise price of the warrant	211,42 PLN
Expected volatility	32,8%
Value of expected dividend	2,60 PLN
The average lifetime of the option	6 years

After the analysis of the conditions for the granting of rights, these conditions were met in 75% for 2017, while for 2018 and 2019 they were not met. In the current year, the valuation surplus over the warrants due was recognised as an adjustment to remuneration costs.

6.7 EVENTS AFTER THE BALANCE SHEET DATE

As at the date of approval for publication of these consolidated financial statements, no material events occurred after the reporting date, which might not be included in these statements. Events after the balance sheet date are presented below:

On 29 January 2020 the Management Board of CCC S.A. informed that on 29 January 2020 adopted the strategy of the CCC Capital Group for the years 2020-2022 „GO.22", including a summary of the main directions of its development (Current Report 4/2020).

On 7 January 2020 the Group exercised its call option (call I) to acquire 24% of shares in the share capital of DeeZee Sp. z o.o. paying PLN 7 million.

In connection with the refinancing of HR Group's debt transaction conducted in February 2020, the parties agreed on an amend their contractual arrangements in respect of CALL and PUT options granted to each other so that they terminated the PUT option agreement entitling HRG to sell 0.32% of preference shares in HR Group Holding S.a.r.l. to CCC S.A. for the amount of EUR 4.5 million, and the right of CCC S.A. to execute call option (CALL) to acquire the remaining (69.45%) of HR shares Group Holding S.a.r.l. for EUR 74.6 million with a 24-month maturity („CALL 24M option") was materially limited.

6.8 INFORMATION ON THE REMUNERATION OF THE AUDITOR OR THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

The table below shows the remuneration of the entity authorized to audit the financial statements paid or due for the year ended 31 December 2019 and 31 December 2018 by type of service:

AUDITOR'S REMUNERATION	2019	2018
CCC S.A.		
Obligatory audit of the annual financial statements and consolidated financial statements	0,7	0,7
Other assurance services	—	—
Tax consultancy services	—	—
Other services	—	—

THE FINANCIAL STATEMENTS were approved for publication by the Management Board of the Company on 6 March 2020 and signed on behalf of the Management Board by:		
SIGNATURE OF THE PERSON RESPONSIBLE FOR KEEPING ACCOUNTING RECORDS		
Edyta Banaś	Chief Accountant	
SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS		
Marcin Czyczerski	President of the Management Board	
Mariusz Gnych	Vice-President of the Management Board	
Karol Półtorak	Vice-President of the Management Board	
Polkowice, 6 March 2020		