SELECTED FINANCIAL DATA

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2018 to 31.12.2018 EUR'000	For the period: from 01.01.2017 to 31.12.2017 EUR'000
Management revenue	52 005	47 652	12 188	11 226
Profit on operating activities	15 646	18 195	3 667	4 287
Profit before taxation	13 702	16 803	3 211	3 959
Net profit	8 574	5 339	2 009	1 258
Net cash from operating activities	12 039	9 537	2 821	2 247
Net cash from investment activities	(1 251)	(65)	(293)	(15)
Net cash from financial activities	(7 799)	(8 468)	(1 828)	(1 995)
Net increase/(decrease) of cash and cash equivalents	2 989	1 004	701	237

	Balance as at 31.12.2018 PLN'000	Balance as at 31.12.2017 PLN'000	Balance as at 31.12.2018 EUR'000	Balance as at 31.12.2017 EUR'000
Total assets	112 974	108 389	26 273	25 987
Non-current liabilities	48 934	35 902	11 380	8 608
Current liabilities	22 916	30 541	5 329	7 322
Equity	41 124	41 946	9 564	10 057
Share capital	3 424	3 424	796	821
No of shares (in items)	3 423 769	3 423 769	3 423 769	3 423 769
Weighted average no of shares (in items)	3 419 591	3 423 769	3 419 591	3 423 769
Profit (loss) per one weighted average ordinary share (in PLN / EUR)	2,51	1,56	0,59	0,37
Book value per one share (in PLN / EUR)	12,01	12,25	2,79	2,94

The above selected financial data are in addition to the financial statements prepared in accordance with the EU IFRS and have been converted into EUR according to the following principles:

- individual assets and liabilities as at the balance sheet date - according to the average exchange rate prevailing as at the balance sheet date, announced by the National Bank of Poland; respectively as at 31 December 2018 – 4,3000, and as at 31 December 2017 – 4,1709;
- individual items in the statement of profit and loss and other comprehensive income and the statement of cash flows for the period from 1 January to 31 December of the given year - at the average rate, calculated as the arithmetic average of exchange rates published by National Bank of Poland on the last day of the month during the period; respectively for the period from 1 January to 31 December 2018 – 4,2669 and from 1 January to 31 December 2017– 4,2447.

Private Equity Managers S.A. Group

Consolidated Financial Statements for the year ended 31 December 2018

For the shareholders of Private Equity Managers S.A.

In accordance with the Regulation of the Minister of Finance of 29 March on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Journal of Laws of 2018 No 757 with amendments), the Management Board of the parent entity is obliged to procure preparation of the consolidated financial statements in accordance with governing accounting principles, which presents the true, fair and clear view of the financial and material situation of Private Equity Managers S.A. Group for the financial year ending on 31 December 2018 and its financial result for the financial year ending on that day.

These consolidated financial statements were approved for publication and signed by the Management Board of the Company.

Name	Position/Function	Signature
Tomasz Czechowicz	President of the Management Board	
Ewa Ogryczak	Vice-president of the Management Board	
Krzysztof Konopiński	Member of the Management Board	

Keeping the Book of Records:
Mazars Polska Sp. z o.o.
00-549 Warsaw, Piękna 18

Warsaw, 17 April 2019

TABLE OF CONTENT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 3
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.................. 5
CONSOLIDATED STATEMENT OF CASH FLOWS 6
ADDITIONAL INFORMATION CONTAINING ESSENTIAL ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY INFORMATION 7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the reporting period ended on 31 December 2018

	NOTES	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Continuing operations			
Revenues from fund management	1	52 005	47 652
Costs of basic activities	2	(10 010)	(9 916)
Gross profit on base business		**41 995**	**37 736**
Operating expenses	2	(26 296)	(19 483)
Other operating income		74	157
Other operating expenses		(127)	(215)
Profit on operating activities		**15 646**	**18 195**
Finance income	3	53	1 899
Finance expenses	3	(1 997)	(3 291)
Profit before taxation		**13 702**	**16 803**
Income tax	4	(5 128)	(11 464)
Net profit		**8 574**	**5 339**
Attributable to:			
- owners of parent company		8 574	5 339
- non-controlling shares		-	-
		8 574	**5 339**
Other net comprehensive income			
Other comprehensive income		-	-
		8 574	**5 339**
Earnings per share			
Basic	5	2,51	1,56
Diluted	5	2,51	1,56

Consolidated statement of profit or loss and of other comprehensive income shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 41.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	NOTES	Balance as at 31.12.2018 PLN'000	Balance as at 31.12.2017 PLN'000
ASSETS			
Non-current assets			
Tangible fixed assets		717	787
Intangible assets		20	27
Goodwill	6	83 969	83 969
Deferred income tax assets	4	5 080	5 073
Trade and other receivables	7	7	7
		89 793	**89 863**
Current assets			
Trade and other receivables	7	17 034	15 368
Cash and cash equivalents	8	6 147	3 158
		23 181	**18 526**
Total assets		**112 974**	**108 389**
EQUITY AND LIABILITIES			
Equity			
Share capital	9	3 424	3 424
Reserve capital	9	1 055	381
Other reserve capital	9	11 500	10 747
Retained earnings		17 560	22 913
Net profit		8 574	5 339
Own shares		(193)	(62)
Other comprehensive income		(796)	(796)
		41 124	**41 946**
Non-current liabilities			
Loans	14	32 750	24 000
Provisions	12	16 184	11 902
		48 934	**35 902**
Current liabilities			
Trade and other liabilities	11	6 544	9 720
Loans	14	6 652	5 682
Bills of exchange	13	8 318	13 738
Provisions	12	1 402	1 401
		22 916	**30 541**
Total equity and liabilities		**112 974**	**108 389**

Consolidated statement of financial position shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 41.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period from 1 January to 31 December 2018

PLN'000	Share capital	Reserve capital*			Other reserve capital	Retained earnings	Net profit	Own shares	Other comprehensive income	Equity attributable to owners of parent company	Total equity
		Issue of shares above their nominal value	Issue of shares as part of conversion of convertible bonds	Distribution of profits	Management option programme						
Balance as at 01.01.2017	**3 424**	**28 382**	**3 611**	**8 420**	**6 727**	**(17 881)**	**14 024**	**-**	**(796)**	**45 911**	**45 911**
Transfer of profit	-	-	-	887	-	13 137	(14 024)	-	-	-	-
Dividend payment	-	-	-	-	-	(10 032)	-	-	-	(10 032)	(10 032)
Cover of loss with reserve capital	-	(28 382)	-	(9 307)	-	37 689	-	-	-	-	-
Redemption of convertible bonds (C-series)	-	-	(3 230)	-	-	-	-	-	-	(3 230)	(3 230)
Option programmes	-	-	-	-	4 113	-	-	-	-	4 113	4 113
Settlement of option programme for Supervisory Board 2012*	-	-	-	-	(93)	-	-	-	-	(93)	(93)
Purchase of own shares	-	-	-	-	-	-	-	(62)	-	(62)	(62)
Profit for the period	-	-	-	-	-	-	5 339	-	-	5 339	5 339
Balance as at 31.12.2017	**3 424**	**-**	**381**	**-**	**10 747**	**22 913**	**5 339**	**(62)**	**(796)**	**41 946**	**41 946**
Balance as at 01.01.2018	**3 424**	**-**	**381**	**-**	**10 747**	**22 913**	**5 339**	**(62)**	**(796)**	**41 946**	**41 946**
Transfer of profit	-	-	-	674	-	4 665	(5 339)	-	-	-	-
Dividend payment	-	-	-	-	-	(10 018)	-	-	-	(10 018)	(10 018)
Share based incentive programmes	-	-	-	-	753	-	-	-	-	753	753
Purchase of own shares	-	-	-	-	-	-	-	(131)	-	(131)	(131)
Profit for the period	-	-	-	-	-	-	8 574	-	-	8 574	8 574
Balance as at 31.12.2018	**3 424**	**-**	**381**	**674**	**11 500**	**17 560**	**8 574**	**(193)**	**(796)**	**41 124**	**41 124**

*Reserve capital in standalone financial statements differs from reserve capital of the parent company due to different net profits at standalone and consolidated level.

Consolidated statement of changes in equity shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 41.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period from 1 January to 31 December 2018

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Cash flows from operating activities		
Net profit for the reporting period	**8 574**	**5 339**
Adjustments:		
Depreciation of tangible fixed assets	287	378
Foreign exchange differences on bonds	-	(879)
Share-based incentive programmes	753	4 020
Interest expenses	1 951	2 242
Paid Income tax	(5 457)	(4 203)
Other adjustments*	6 497	4 065
Change in provisions	4 283	(1 860)
Change in trade and other receivables	(1 666)	(4 255)
Change in trade and other payables	(3 176)	(1 238)
Change in the level of deferred tax assets and liabilities	(7)	5 928
Net cash from operating activities	**12 039**	**9 537**
Cash flows from investment activities		
Outflows for loans granted	(15)	-
Outflows for purchase of related entities	-	2
Outflows for purchase of fixed assets	(1 236)	(69)
Other investment inflows and outflows	-	2
Net cash from investment activities	**(1 251)**	**(65)**
Cash flows from financial activities		
Outflows for the purchase of own shares	(131)	(62)
Repayment of financial liabilities with interest	(12 639)	(27 990)
Incurred financial liabilities	15 000	29 676
Commission on loans	(11)	(62)
Dividend payments with interests	(10 018)	(10 032)
Others	-	2
Net cash from financial activities	**(7 799)**	**(8 468)**
Net increase/(decrease) of cash and cash equivalents	**2 989**	**1 004**
Opening balance of cash and cash equivalents	3 158	2 154
Closing balance of cash and cash equivalents	**6 147**	**3 158**

*Other adjustments consist mainly from income tax paid disclosed in separate line.

Consolidated statement of cash flows shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 41.

ADDITIONAL INFORMATION CONTAINING ESSENTIAL ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY INFORMATION

General information

The Company Private Equity Managers S.A. (hereinafter referred to as "the Company" or "PEM") by decision of the District Court for the Capital City of Warsaw, 12th Economic Division of the National Court Register in Poland, was registered in the National Court Register on 25 November 2010 with the number 0000371491. The Company details:
- REGON (statistical number): 142695638
- NIP (tax identification number): 525-24-93-938
- The Company's registered office is in Pl. Europejski 1 in Warsaw
- The Company's lifetime is indefinite.

The Company Private Equity Managers S.A. is parent company of the Capital Group Private Equity Managers S.A. ("PEM Group", "CG PEM" or "Group").

The Group Private Equity Managers S.A. specialises in managing various classes of assets. Operations of PEM Group concentrate on managing assets of investments funds of the *private equity, venture capital and mezzanine debt* type.

Composition of the Capital Group Private Equity Managers S.A. as at 31 December 2018

Parent company:
- **Private Equity Managers S.A.**
  (hereinafter PEM)

Subsidiaries:
- **MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A.**
  Manages investment funds
- **PEM Seed Capital Sp. z o.o.**
  Company created merger of MCI Ventures Sp. z o.o. with PEMSA Holding Limited possessing investment certificates issued by MCI.Partners FIZ
- **MCI.Partners FIZ**
  Closed-end investment fund of non-public assets dedicated to entities from the Group
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością**
  (hereinafter MCI Asset Management Sp. z o.o.)
  General partner of MCI Asset Management Sp. z o.o. V S.K.A.
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością V S.K.A.**
  (hereinafter MCI Asset Management Sp. z o.o. V S.K.A.)
  Holds bonds issued by Private Equity Managers S.A. in its portfolio
- **PEM Asset Management Sp. z o.o.**
  (hereinafter PEM AM)
  Company managing the following funds: MCI.PrivateVentures FIZ, MCI.CreditVentures 2.0 FIZ, Helix Ventures Partners FIZ, Internet Ventures FIZ
- **Energy Mobility Partners Sp. z o.o.**
  Direct subsidiary of PEM. As at the date of preparing the financial statements, the company did not conduct any operating activities.
- **Helix Ventures Asset Management Sp. z o.o.**
  Indirect subsidiary of PEM and direct subsidiary of PEM AM, in which PEM AM holds 65% of shares. As at the date of preparing the financial statements, the company did not conduct any operating activities.

On 18 October 2018, the District Court for Warsaw has registered a merger of two companies from the PEM Capital Group (PEMSA Holding Limited and MCI Ventures Sp. O.o.). The merger took place in accordance with the provisions of art. 516^1 of the commercial code and further in connection with art. 492 § 1 item 1 of the Commercial Code and the provisions of Section 201I-201X of the Laws of Commercial Companies of Cyprus and the provisions of Directive 2005/56 / EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies. The merger was carried out using the pooling of interests method. The acquiring company was MCI Ventures Sp. z o.o., and the acquired company PEMSA Holding Limited. On 18 October 2018, the company under which MCI Ventures Sp. z o.o. at PEM Seed Capital Sp. z o.o. has changed.

In all subsidiaries listed above (except for Helix Ventures Asset Management Sp. z o.o.), PEM holds directly or indirectly 100% of shares 100% of votes.

Basis for preparation of the Financial Statements

These consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards approved by the European Union, and in the areas not regulated by the above standards in accordance with the requirements of the Act of 29 September 1994 on Accounting (Journal of Laws of 2018, item 395 with subsequent amendments) and executive regulations issued on its basis, as well as requirements relating to issuers of securities admitted or being the subject of an application for admission to trading on the official stock exchange market.

The date of preparation of the consolidated financial statements for the current financial year

The consolidated financial statements were prepared by the Management Board of the Company on 17 April 2019.

The date of approval of the consolidated financial statements for the previous financial year

The financial statements for the previous period, i.e. from 1 January 2017 to 31 December 2017, were approved by the Annual General Meeting of Shareholders on 28 June 2018. On 30 November 2018, the financial statements for 2017 were submitted to the electronic repository The National Court Register.

Functional and presentation currency

Figures presented in the consolidated Financial Statements are calculated and presented in a currency applied in the economic environment in which the Group runs its operations ("functional currency"), i.e. Polish zloty. Figures in the consolidated financial statements are presented in thousands Polish zlotys (TPLN) unless stated otherwise.

As at the balance sheet date, the financial statements expressed in foreign currencies were not subject to consolidation.

Accounting estimates and judgments

Preparation of the consolidated Financial Statements requires the Management Board to make estimates and assumptions which affect the application of the adopted accounting principles and presented figures disclosed in the Financial Statements. Real values may differ from the estimates.

All judgments, assumptions as well as estimates made for the purposes of these consolidated financial statements are presented in the required disclosures relating to particular items of this statement, in the notes containing significant accounting principles and other explanatory information to the consolidated financial statements, which constitute its integral part. Estimates and judgments are subject to ongoing verification. They result from past experience, including predictions about future events that are relevant and new information in a given situation.

The main assumptions about the future and other key reasons for the uncertainty of estimates as at the balance sheet date are presented below.

Asset management revenues

Remuneration for asset management is determined based on the net asset value of the funds managed by the Group. The valuation of the net assets of the funds is based on the estimate of the fair value of the fund's investments in shares and stocks of the portfolio companies. The assumptions and valuation models have a significant impact on the estimate of this value.

Impairment of goodwill

Determination of the value in use is connected with the Group's estimation of the value of future cash flows, expected from continued use or disposal of an asset and the discounting of these values. The adopted assumptions and the valuation model have a significant impact on the estimate of this value.

Share-based payments

The determination of the value of individual share-based payments is based on the Group's estimates adopted for the fair value measurement of the equity instruments granted, including: the actual exercise price of Private Equity Managers S.A. shares as of the moment of granting ('grant date'), estimation of historical volatility, risk-free interest rate, expected dividend rate, period during which the entitled person may exercise the rights resulting from the program and the adopted valuation model.

Remuneration for the exit from the investment (Carry fee)

The remuneration (reserve) for the exit from the investment is vested in the investment managers of the portfolio companies of the funds. It is calculated based on parameters from the actual purchase offer of a given company (partial or total exit) and it cannot exceed 5% of the net profit realized on a given investment calculated as the difference between revenue from the sale of shares / expenses incurred for a given investment, increased by 10%, i.e. expected return on investment (so-called hurdle rate) in the period from the moment of incurring a given expenditure to the moment of proceed of cash from the sale of an investment of shares / stocks. The provision for variable remuneration is updated quarterly based on a quarterly revaluation to the fair value of a given investment in a company in the portfolio.

Deferred tax assets

Deferred tax assets are determined in the amount anticipated to be deducted from income tax in the future, due to negative temporary differences that will result in a future reduction in the income tax basis and deductible tax loss determined in accordance with the prudence principle. The amount of deferred income tax assets is determined taking into account income tax rates in force in the year when the tax obligation arises. The value of the deferred tax asset is subject to analysis as of each balance sheet date, and if the expected future tax profits are not sufficient to realize the asset or its part, it is written off.

The accounting policy

The accounting principles identical to those adopted for information as at and for the twelve months ended 31 December 2018 have been applied to comparative data presented in the consolidated financial statements, except for changes resulting from the application of the new International Financial Reporting Standards, effective from 1 January 2018 (IFRS 9 and IFRS 15) described in Note 26.

1. Revenues from fund management

The Group revenues consist mainly of:

- Fixed remuneration – this remuneration is calculated on a day following the day of net asset measurement of a given fund as percentage of net asset value of this fund as at measurement day and is calculated for each day of the year. This fee is payable on a quarterly basis. For sub-funds MCI.EuroVentures 1.0. and MCI.TechVentures 1.0. separated within MCI.PrivateVentures FIZ and MCI CreditVentures 2.0 FIZ the fixed remuneration is calculated on net asset value as at the end of the previous quarter (or the most recent measurement). For Helix Ventures Partners FIZ the fixed remuneration is calculated on an amount actually invested, less value of securities (at the acquisition price), which have been disposed of or recognised as losses. The fixed remuneration for the Internet Ventures is determined in accordance with the adopted budget of the Internet Ventures.

- Variable remuneration – this remuneration depends on the increase of net asset value of a given fund as per one investment certificate above a defined value. This remuneration is calculated as at each measurement day (if there's a basis for calculating variable remuneration). Thresholds above which the variable fee is calculated are defined in articles of association of funds for each series of investment certificates.

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Fixed remuneration for fund management:		
Sub-fund MCI.TechVentures 1.0.	25 032	25 039
Sub-fund MCI.EuroVentures 1.0.	15 952	14 195
MCI.CreditVentures 2.0 FIZ	3 225	2 913
Internet Ventures FIZ	2 711	2 973
Total	**46 920**	**45 120**
Variable remuneration for fund management:		
Sub-fund MCI.TechVentures 1.0.	1 738	186
Sub-fund MCI.EuroVentures 1.0.	682	32
MCI.CreditVentures 2.0 FIZ	2 665	2 314
Total	**5 085**	**2 532**
Total revenues from fund management	**52 005**	**47 652**

The higher value of management revenues in 2018 as compared to the previous year results from higher fixed and variable remuneration for fund management. Fixed remuneration is closely related to the value of net assets of the funds managed, which average value was higher in 2018 compared to the comparative period, while variable remuneration is dependent on the increase in the value of net assets per one investment certificate.

Net assets under management

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
*Sub-fund MCI.TechVentures 1.0.	817 522	864 301
**Sub-fund MCI.EuroVentures 1.0.	1 022 451	842 271
***MCI.CreditVentures 2.0 FIZ	204 217	201 559
****Internet Ventures FIZ	52 530	55 452
*****Helix Ventures Partners FIZ	10 279	8 100
	2 106 999	**1 971 683**

on the basis of reporting valuations of the above funds

*The decrease in the net assets value of the sub-fund resulted mainly from the redemptions of investment certificates during the year, this effect was partially offset by the increase in the sub-fund's investments
**The main factor behind the increase in net asset value was the increase in the value of investments of the sub-fund
***The main factor behind the increase in net asset value was the increase in the value of fund investments, partially offset by net redemption of investment certificates
****The main factor behind the decline in the value of net assets was the decline in the value of fund investments
*****The main factor behind the increase in net asset value was the increase in the value of fund investments

2. Costs of the core business and general administrative expenses

Costs of the core business

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Distribution costs at the sales of investment certificates	(7 982)	(8 660)
Above-the-limit costs of funds covered by TFI	(403)	(301)
Costs of auxiliary activities related to keeping record of funds' participants	(244)	(194)
Other costs	(1 381)	(760)
	(10 010)	**(9 916)**

General administrative expenses

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Depreciation/amortisation of fixed and intangible assets	(287)	(378)
Use of materials and energy	(174)	(93)
External services, including:	(5 276)	(4 907)
- costs of advisory and legal services	*(625)*	(570)
- costs of rental	*(1 113)*	(1 045)
- costs of accounting	*(700)*	(403)
- costs of marketing, including conferences	*(397)*	(361)
- costs of audit services	*(515)*	(575)
- costs of public trading	*(106)*	(121)
- costs of recruitment	*(563)*	(260)
- costs of IT	*(155)*	(152)
- costs of advertisement	*(277)*	(261)
- other services	*(825)*	(1 159)

Taxes and charges	(111)	(107)
Remuneration, including:	(18 897)	(12 413)
- fixed remuneration	*(9 537)*	(8 233)
- variable remuneration	*(9 360)*	(4 180)
Social insurance and other benefits	(459)	(364)
Other costs	(1 092)	(1 221)
	(26 296)	**(19 483)**

3. Financial income and costs

Financial income

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Interest income accrued using the effective interest rate method, including:		
Interest on short-term bank deposits	47	17
Interest on loans	1	-
Foreign exchange gains	1	1 014
Settlement of convertible bonds redemption (C series)	-	863
Other financial income	4	5
	53	**1 899**

Financial expenses

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Costs of interest on:		
Issued bills of exchange	(645)	(638)
Bank loans*	(1 292)	(575)
Issued bonds**	-	(1 857)
Foreign exchange loss	(19)	-
Expected credit loss write-off	(16)	-
Commission on loan	(14)	(64)
Collateral of loan	(2)	-
Other	(9)	(157)
	(1 997)	**(3 291)**

*Increase in costs of interest on bank loans in connection with the increase in the term loan balance at ING Bank Śląski S.A. from PLN 25 million to PLN 40 million. Details are described in **Note 14 *"Loans"***.
**A drop in costs of interest on bonds issued in connection with the redemption of series C bonds on 4 August 2017.

4. Income tax and deferred income tax

Income tax recognized in the statement of comprehensive income

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Income tax - current part	(5 135)	(4 562)
Income tax - deferred part	7	2 756
Corrections included in current period, related to current income tax for previous periods*	-	(974)
Write-off of deferred tax assets*	-	(8 684)
	(5 128)	**(11 464)**

*On 15 July 2016 changes to tax law have been implemented in order to include provisions from the General Anti-Avoidance Rule ("GAAR" clause). GAAR clause has to be applied to all transactions concluded after entering into force of the clause, as well as to the transactions that have been concluded before entering into force of the clause, but for which after entering into force of the clause it was possible to benefit from those transaction.

Therefore, the Group has analysed tax settlements, which led to a conclusion that by virtue of tax law, including the GAAR clause, as well as Statements from the Ministry of Finance, including "Statement of PFSA on impact of rules on tax anti-avoidance on the financial statements of public listed companies", tax settlements of the PEM Tax Group could have been questioned by the tax authorities.

For this reason, the Group has changed its judgment on:

a) the legitimacy of including costs of tax amortization of goodwill created in connection with purchase of MCI Asset Management Sp. z o.o. sp.j. in 2015 in tax costs;
b) the legitimacy of retaining deferred tax assets related to the abovementioned tax goodwill.

Within the PEM Group there has been operating the Private Equity Managers S.A. Tax Group (the "PEM Tax Group") since 1 July 2016. Following changes in estimates, the PEM Tax Group has modified tax settlements effective since 1 July 2016 (i.e. since the beginning of existence of PEM Tax Group and since entering into force of the GAAR clause), which had an impact on tax settlements of the PEM Tax Group. Correction included:

a) Withdrawal of amortization of tax goodwill, which have been treated as tax cost – the PEM Tax Group has included change in estimates in tax return for the period from 1 July 2016 to 30 June 2017 and consequently paid current income tax in the amount of PLN 2.936 thousand, including PLN 974 thousand related to the period from 1 July 2016 to 31 December 2016.
b) Write-off of entire deferred tax assets related to tax goodwill disclosed in consolidated financial statements in the amount of PLN 8.684 thousand.

Correction of deferred tax asset is a one-off, non-cash event, which will not have impact on operating results of the Group.

Effective tax rate reconciliation

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Gross profit	13 702	16 803
Income tax according to the statutory tax rate (19%)	(2 603)	(3 193)
The effect of permanent differences between gross profit and income to income tax, including:	**(2 525)**	**(8 271)**
Non-taxable revenues	**-**	**331**
Settlement of convertible bonds redemption (C series)	-	164
Balance foreign exchange differences	-	167
Non-deductible expenses	**(616)**	**(1 505)**
Interest on bonds	**-**	*(353)*
Managerial option programme	*(143)*	*(848)*
Interest and commission on loan	*(246)*	*(94)*
Cost of representation	*(32)*	*(41)*
Contractual fines, damages	*(56)*	*(26)*
Budget interest	-	*(28)*
Other non-tax costs, including business trips	*(139)*	(115)
Other	**(1 908)**	**(7 097)**
Corrections included in current period, related to current income tax for previous periods	*(29)*	*(974)*
Write-off of deferred tax assets	-	*(8 684)*
Reversal of temporary differences from previous periods subject to impairment of assets	-	*3 366*
Recognition of a deferred tax asset on tax loss	-	*179*
Recognition of temporary differences from costs recognized in previous periods	-	*56*
*Tax revenues not recognized in the profit or loss statement**	*(1 085)*	*(1 143)*
Tax costs not recognized in the profit or loss statement	*7*	*7*
Non-deductible expenses assigned to Group companies not being income tax payers or whose tax losses are not subject to settlement with the income of other Group companies	*(71)*	*(60)*
The division of tax costs of both sources per source of Capital gains	*(577)*	-
Interest paid on bills of exchange - non-tax	*(156)*	-
Other	*2*	*156*
Tax burden in the statement of profit or loss and other comprehensive income	**(5 128)**	**(11 464)**
Effective tax rate	**37%**	**68%**

*The item consists mainly of interest on cash pool and interest on bonds issued by Private Equity Managers SA, acquired by MCI Asset Management Sp. z o.o. V S.K.A.

Accountable tax loss as of 31 December 2018

Incurred in	Incurred at	Utilised in previous periods in amount	Utilised in current period in amount	To be utilised at	To be utilised until
year	000'PLN	000'PLN	000'PLN	000'PLN	year
2012	1 487	(108)	-	690*	1 year after exit from the Tax Group
2013	2 047	(1 135)	-	912	2 years after exit from the Tax Group
2014	1 734	-	-	1 734	3 years after exit from the Tax Group
2015	9 811	-	-	9 811	4 years after exit from the Tax Group
01-06.2016	2 639	-	-	2 639	5 years after exit from the Tax Group
	17 718	**(1 243)**	**-**	**15 786**	

* Half of the tax loss generated in 2012 remains to be utilized.

Accountable tax loss as of 31 December 2017

Incurred in	Incurred at	Utilised in previous periods in amount	Utilised in current period in amount	To be utilised at	To be utilised until
year	000'PLN	000'PLN	000'PLN	000'PLN	year
2012	1 487	(108)	-	690	1 year after exit from the Tax Group
2013	2 047	(1 135)	-	912	2 years after exit from the Tax Group
2014	1 734	-	-	1 734	3 years after exit from the Tax Group
2015	9 811	-	-	9 811	4 years after exit from the Tax Group
01-06.2016	2 639	-	-	2 639	5 years after exit from the Tax Group
	17 718	**(1 243)**	**-**	**15 786**	

Deferred tax

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Deferred tax asset:		
Due for settlement after 12 months	3 000	3 000
Due for settlement within 12 months	3 710	3 128
	6 710	**6 128**
Deferred tax liabilities:		
Due for settlement after 12 months	-	-
Due for settlement within 12 months	1 630	1 055
	1 630	**1 055**

Deferred tax assets

	Tax losses which can be deducted	Other titles*	Total
	000' PLN	000' PLN	000' PLN
Balance as of 1 January 2017	**4 354**	**6 647**	**11 001**
Effect on profit or loss	180	3 631	3 811
Effect on profit or loss – correction of transactions from previous periods	(1 534)	(7 150)	(8 684)
Effect on equity	-	-	-
Balance as of 31 December 2017	**3 000**	**3 128**	**6 128**
Effect on profit or loss	-	582	582
Effect on equity	-		-
Balance as of 31 December 2018	**3 000**	**3 710**	**6 710**

*Deferred tax assets as at 31 December 2018 consist primarily of assets recognized on the Carry Fee reserve.

Deferred tax liability

	Other liabilities*	Total
	000' PLN	000' PLN
Balance as of 1 January 2017	**-**	**-**
Effect on profit or loss	1 055	1 055
Effect on equity	-	-
Balance as of 31 December 2017	**1 055**	**1 055**
Effect on profit or loss	575	575
Effect on equity	-	-
Balance as of 31 December 2018	**1 630**	**1 630**

*Deferred tax liabilities as at 31 December 2018 consist mainly of deferred tax liability on interest accrued on B series bonds in MCI Asset Management Sp. z o.o. V S.K.A.

Private Equity Managers S.A. is a parent company in the PEM Tax Group established together with PEM Asset Management Sp. z o.o. and MCI Capital TFI S.A. at half of 2016. Fiscal year of the PEM Tax Group lasts from 1 July to 30 June. Agreement has been signed for 3 consecutive fiscal years. As of the day of preparation present financial statements, the Group is during the third fiscal year of the PEM Tax Group.

During the PEM Tax Group lifetime, companies comprising the PEM Tax Group are obliged to maintain the profitability ratio at 2% or higher (in the tax year beginning on 1 July 2018) and 3% (in the tax years ended on 30 June 2018 or earlier). Otherwise, the PEM Tax Group will be dissolved. At the same time, companies comprising the PEM Tax Group are not entitled to benefit from any other tax exemptions based on separate acts.

Losses generated by companies before establishing the PEM Tax Group do not expire. Therefore, companies comprising the PEM Tax Group will be entitled to settle tax losses through 5 subsequent years after dissolving the PEM Tax Group.

Therefore, the Group has included deferred tax losses arisen before establishment of the PEM Tax Group due to the fact that it will be settled in subsequent period (deferred tax assets subject to utilization after 12 months). At the same time, the Group confirms that it is able to generate taxable income that will allow to utilize the tax losses.

5. Earnings per share

Earnings per share

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Earnings attributable to shareholders of the Company	8 574	5 339
Weighted average no of ordinary shares (in 000s)	3 420	3 424
Basic/diluted earnings per share (in PLN per one share)	**2,51**	**1,56**

6. Goodwill

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
MCI Capital TFI S.A.	8 749	8 749
PEM Asset Management Sp. z o.o.	75 220	75 220
	83 969	**83 969**

Calculation of goodwill

	MCI Capital TFI S.A.	MCI Asset Management Sp. z o.o. Sp. j.	Reclassification*	MCI Asset Management Sp. z o.o. Sp.j. after reclassification	PEM Asset Management Sp. z o.o.	Total
Purchase price	-	15 400	(15 400)	-	15 400	15 400
Fair value of net assets taken over	-	1 304	(1 304)	-	1 304	1 304
Goodwill in 2010	**-**	**14 096**	**(14 096)**	**-**	**14 096**	**14 096**
Purchase price	17 162	88 100	(88 100)	-	88 100	105 262
Fair value of net assets taken over	8 413	26 982	(26 982)	-	26 982	35 395
Goodwill in 2012	**8 749**	**61 118**	**(61 118)**	**-**	**61 118**	**69 867**
Purchase price	-	-	-	-	11	11
Fair value of net assets taken over	-	-	-	-	5	5
Goodwill in 2015	**-**	**-**	**-**	**-**	**6**	**6**
Goodwill	**8 749**	**75 214**	**(75 214)**	**-**	**75 220**	**83 969**

* Please refer to description of goodwill – PEM Asset Management Sp. z o.o.

Goodwill – MCI Capital TFI S.A.

In January 2012 100% shares of the company MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A. held by MCI Management S.A. (currently MCI Capital S.A.) were contributed as a contribution-in-kind to Private Equity Managers S.A. (formerly MCI Partners SA.).

The resolution on the contribution-in-kind was passed at the Extraordinary Shareholders Meeting MCI Partners S.A. on 12 January 2012, hence MCI Partners S.A. resolved an increase of share capital and capital redemption reserve by the value of the contributed shares.

The share subscription agreement was signed on 5 February 2012 under which MCI Management S.A. subscribed 5.056.000 shares in the increased capital of MCI Partners S.A. with numbers from C0.000.001 to C5.056.000. The shares subscribed by MCI Management S.A. were covered with a contribution-in-kind of 2.475.000 registered shares of MCI Capital TFI S.A. of a value PLN 1,00 each and of a total fair value of TPLN 10.112.

On 13 March 2012, due to the requirement to remedy the deficiencies in share capitals in MCI Capital TFI S.A., the Extraordinary Shareholders Meeting of MCI Capital TFI S.A. resolved on increasing the share capital in line with the capital requirement for 2012. Share capital increase by PLN 7.050.000, from PLN 2.475.000 to PLN 9.525.000 was resolved at the Extraordinary Shareholders Meeting. The share capital was increased through issuing 7.050.000 registered K series shares of a nominal value PLN 1,00 each. The K series shares are not privileged. The issue price of K series shares is PLN 1,00 per share. Shares of the new issue of K series have participated in the dividend since 1 January 2012.

The shares in the increased share capital were subscribed through a private subscription addressed to MCI Partners S.A. accepted the offer and subscribed all 7.050.000 registered K series shares of a nominal value PLN 1,00 each and a total fair value of TPLN 7.050.

The total value of subscribed shares was TPLN 17 162, whereas the fair value of acquired assets was TPLN 8.413.

Goodwill – MCI Asset Management Sp. z o.o. Sp.j.

Goodwill arising in 2010

On 31 December 2010 the Company's Extraordinary Shareholders Meeting agreed to increase the contribution of MCI Management S.A. (currently MCI Capital S.A.), as the Company's General Partner, from PLN 100,00 to PLN 15.400.100,00, i.e. by PLN 15.400.000 through contributing by MCI Management S.A., as General Partner, an organised part of the enterprise. The contributed organised part of the enterprise is a financially and organisationally separate set of material and non-material elements intended for execution of economic operations within the segment of MCI Management S.A. operating in the sector of investment funds and advisory for investment funds.

The value of the organised part of the enterprise is PLN 15.400.000. The measurement was verified by and independent licensed auditor.

The book value of the organised part of the enterprise is TPLN 1.304.

Goodwill arising in 2012

On 9 May 2012 100% shares of MCI Asset Management Sp. z o.o. S.K.A. was sold by the fund MCI.PrivateVentures FIZ acting for the benefit of the sub-fund MCI.EuroVentures 1.0. for the benefit of the fund MCI Partners FIZ.

50.000 A series shares were sold at a nominal value PLN 1,00 each, i.e. at a total nominal value of PLN 50.000. The selling price of one share was PLN 1.762,00 per each share. The total selling price of shares was PLN 88.100.000.

The parties agreed a payment for the purchased shares based on a set-off agreement concluded on 9 May 2012. Pursuant to this agreement, the debt of the fund purchasing the shares of MCI.Partners FIZ was set-off against the debt of the Seller on account of the obligation to pay the price of A series bonds issued by MCI Partners S.A. The difference of PLN 200 arising on debts on account of bond sales (i.e. PLN 88.100.200) and debts on the sales of shares of MCI Asset Management Sp. z o.o. S.K.A. was paid on 22 May 2012 by the fund MCI.PrivateVentures FIZ acting for the benefit of the sub-fund MCI.EuroVentures 1.0.

Fair value of the acquired non-current assets was TPLN 26 982.

On 20 December 2013, the Extraordinary General Meeting of MCI Asset Management Sp. z o.o. S.K.A. decided to transform the company into a general partnership. The reinstatement was registered in the National Court Register on 31 January 2014.

Goodwill – PEM Asset Management Sp. z o.o.

Due to the sale of MCI Asset Management Sp. z o.o. Sp.j. to PEM Asset Management Sp. z o.o. the goodwill arose in 2010 and in 2012 in MCI Asset Management Sp. z o.o. Sp.j. was transferred to PEM Asset Management Sp. z o.o. The company's goodwill did not arise on the very same sales transaction, because

due to the fact that the transaction took place between entities under joint control, the value of the sold entity was recognised in the books of PEM Asset Management Sp. z o.o. at fair value.

Test for impairment of goodwill conducted in 2018

Tests for impairment of goodwill are conducted at least once a year, or more frequently if there are grounds that impairment of goodwill might have taken place.

In 2018 the Group tested for impairment the following companies:

- MCI Capital TFI S.A.,
- PEM Asset Management Sp. z o.o.

As part of the test the Group defined cash generating units, not larger than the operating segment, to which goodwill has been allocated of a total value of TPLN 83.969. There were no additional elements of intangible assets with an indefinite useful life that could be classified as identified cash generating units.

Test for impairment of goodwill of individual cash generating units was conducted based on value in use of cash generating units compared to their book value.
The value in use of shares in MCI Capital TFI was determined based on the model of discounted dividends. The key assumptions for the model are:

- forecasting period,
- expected net asset value of funds managed by MCI Capital TFI,
- value of dividends possible to be paid in the forecasting period in line with externally determined capital requirements,
- dividend growth rate after the forecasting period,
- residual value of dividends which possible to be paid,
- discount rate.

The value in use of shares in PEM Asset Management Sp. z o.o. was determined based on the model of discounted dividends granted that the dividends would be paid in the forecasting period at the level of 100%. Other key assumptions for the model are:

- forecasting period,
- expected value of cash flows in the forecasting periods,
- growth rate after the forecasting period,
- residual value,
- discount rate.

Value in use is the current estimated value of future cash flows for the period of 3 years, taking into account the residual value of cash generating units. The residual value of cash-generating units was calculated by extrapolating the projections of cash flows beyond the forecast period using the growth rate adopted at the level of 2.5%. The discount rate of 10.5% including the risk-free rate and the risk premium was used to discount future cash flows.

Impairment tests carried out as at 31 December 2018 showed a surplus of the recoverable amount over the carrying amount of individual cash-generating units, and therefore, the value of MCI Capital TFI and PEM Asset Management Sp. z o.o.

7. Trade and other receivables

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Receivables on management fees, including:	13 066	14 758
- variable fee	493	2 415
- fixed fee	12 572	12 280
- handing fees	1	6
- others	-	57
Receivables from related entities	5	6
Other trade receivables	116	63
Tax / budget fees	12	22
Prepayments*	3 431	381
Other receivables	411	145
	17 041	**15 375**
Including:		
Non-current part:	7	7
Current part:	17 034	15 368
	17 041	**15 375**

*Prepayments comprise primarily the activated costs of creating a new fund.

8. Cash and cash equivalents

Balance of cash and cash equivalents in the amount of PLN 6,147 thousand as at the balance sheet day (as at 31 December 2017 amounted to PLN 3,158 thousand) were funds accumulated on the bank account and bank deposits.

9. Equity

Share capital

	Balance as of 31.12.2018	Balance as of 31.12.2017
Share capital issued and paid (PLN 000s)	3 424	3 424
Number of shares	3 423 769	3 423 769
Nominal value per share (PLN)	1,00	1,00
Nominal value of all shares (PLN 000s)	**3 424**	**3 424**

Reserve capital

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Balance at the beginning of period	**381**	**40 413**
Capital from issue of convertible bonds	-	(3 230)
Cover of loss with the reserve capital	-	(37 689)
Transfer of profit for previous period to reserve capital	674	887
Balance at the end of period	**1 055**	**381**

Other reserve capital

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Balance at the beginning of period	**10 747**	**6 727**
Settlement of the management options programme for members of the Supervisory Board in 2012	-	(93)
Valuation of management options programme for members of the Key Management Staff 2017	-	4 113
Revocation of management options programme for members of the Key Management Staff 2017	(47)	-
Valuation of management options programme for members of the Key Management Staff 2018	800	-
Balance at the end of period	**11 500**	**10 747**

*Incentive programmes described in **Note no. 15 *„Share based incentive programme”***.

10. Shareholders structure

Significant shareholders as of 31.12.2018

	Participation in the share capital		Participation in the total number of votes at the General Meeting	
	Number of shares	Participation in the share capital	Number of shares	Participation in the votes
MCI Management Sp. z o.o.*	1 296 159	37,86%	1 296 159	37,86%
CKS Inwestycje Sp. z o.o.**	341 005	9,96%	341 005	9,96%
MCI Capital S.A.	379 043	11,07%	379 043	11,07%
AMC III Moon B.V.	277 921	8,12%	277 921	8,12%
Others***	1 129 641	32,99%	1 129 641	32,99%
	3 423 769	**100,00%**	**3 423 769**	**100,00%**

*Company controlled by Tomasz Czechowicz
**Balance as of 21 December 2018
***Relates to shareholders holding below 5% of shares and votes

Significant shareholders as of 31.12.2017

	Participation in the share capital		Participation in the total number of votes at the General Meeting	
	Number of shares	Participation in the share capital	Number of shares	Participation in the votes
MCI Management Sp. z o.o.*	1 287 275	37,60%	1 287 275	37,60%
CKS Inwestycje Sp. z o.o.**	423 005	12,35%	423 005	12,35%
MCI Capital S.A.	350 641	10,24%	350 641	10,24%
AMC III Moon B.V.	277 921	8,12%	277 921	8,12%
Others***	1 084 927	31,69%	1 084 927	31,69%
	3 423 769	**100,00%**	**3 423 769**	**100,00%**

*Company controlled by Tomasz Czechowicz
**Company controlled by Cezary Smorszczewski
***Relates to shareholders holding below 5% of shares and votes

11. Trade and other payables

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Trade payables	798	879
Payables to related entities*	583	2 621
Tax liabilities**	1 357	1 628
Remuneration payables	9	-
Social insurance and other burdens	96	60
Carry Fee liabilities***	1 160	1 164
Prepayments****	2 504	3 338
Other liabilities	37	30
	6 544	**9 720**

*Payables to related entities are presented in **Note No. 24 *"Related entities"***.
**Tax liabilities consists primarily of the advance payment for corporate income tax for December 2018 and 2017, respectively.
***Carry Fee liabilities due to the recapitalization of the investment in NaviExpert, partial exit from the investment in Indeks Bilgisayar and exit from the investment in iZettle.
****This position consists mainly of provisions for compensation of distributors of investment certificates.

12. Provisions

	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Provisions for Carry Fee*	16 184	11 902
Provisions for audit of financial statements	152	273
Fundraising fee**	224	408
Other provisions***	1 026	720
	17 586	**13 303**
Non-current part:	16 184	11 902
Current part:	1 402	1 401
	17 586	**13 303**

*Provisions for costs of remuneration on disinvestment and on investment value increase. More information in **Note no. 16 *„Employee benefits"***.
**Provision for costs of remuneration for raising funds for future investments.

***Other provisions as of 31 December 2018 consisted primarily of a bonus for the President of the PEM Management Board - Tomasz Czechowicz in the amount of PLN 500 thousand.

Provision breakdown	Balance as of 01.01.2018 PLN'000	Increase in provisions PLN'000	Release of provisions PLN'000	Use of provisions PLN'000	Balance as of 31.12.2018 PLN'000
Provisions for Carry Fee	11 902	4 922	-	(640)	16 184
Provisions for audit of financial statements	273	176	(24)	(273)	152
Fundraising fee	408	224	(408)	-	224
Other provisions	720	1 026	(176)	(544)	1 026
Total provisions	**13 303**	**6 348**	**(608)**	**(1 457)**	**17 586**

13. Bills of exchange

The Group manages financial liquidity using short term financial instruments – bills of exchange.

As of 31.12.2018 the Group had liabilities on bills of exchange to the following companies:

	Maturity	Nominal value PLN'000	Accrued interest PLN'000	Interest rate %	Total PLN'000
LoanVentures Sp. z o.o.*	2019-03-28	8 218	100	4,79%	8 318
		8 218	**100**	**-**	**8 318**

*Portfolio company of MCI CreditVentures FIZ 2.0.

As of 31.12.2017 the Group had liabilities on bills of exchange to the following companies:

	Maturity	Nominal value PLN'000	Accrued interest PLN'000	Interest rate %	Total PLN'000
LoanVentures Sp. z o.o.*	2018-09-29	7 500	443	4,79%	7 943
MCI VentureProjects Sp. z o.o. VI SKA**	2018-11-02	3 500	191	4,80%	3 691
MCI VentureProjects Sp. z o.o. VI SKA**	2018-12-01	2 096	8	4,79%	2 104
		13 096	**642**	**-**	**13 738**

* Portfolio company of MCI CreditVentures FIZ 2.0.
**Portfolio company of MCI.EuroVentures 1.0 Sub-fund separated within MCI.PrivateVentures FIZ.

14. Loans

Bank loans as of 31.12.2018

Lender	Type of financing	Repayment date	Interest rate %	Amount of liability PLN'000
ING Bank Śląski S.A.	Term loan	30.12.2022	WIBOR 3M + 2,8%	39 402
ING Bank Śląski S.A.	Overdraft	31.12.2019	WIBOR 1M + 1%	-*
				39 402
			Including:	
			Non-current part:	32 750
			Current part:	6 652
				39 402

*As at the balance sheet date, the Group had available overdrafts in the amount of PLN 5,000 thousand. The balance of the overdraft drawn was PLN 0.

Bank loans as of 31.12.2017

Lender	Type of financing	Repayment date	Interest rate	Amount of liability
			%	PLN'000
ING Bank Śląski S.A.	Term loan	30.12.2022	WIBOR 3M + 2,8 p.p.	25 006
ING Bank Śląski S.A.	Overdraft	26.07.2018	WIBOR 1M + 1 p.p.	4 676
				29 682
			Including:	
			Non-current part:	24 000
			Current part:	5 682
				29 682

15. Share based incentive programmes

Management stock option agreement for President of the Management Board – Tomasz Czechowicz

Under management stock option agreement concluded on 23 March 2017 between the Company and Tomasz Czechowicz (hereinafter "TC" or "party"), the Company is obligated to enable TC taking up to 273.900 new shares in PEM's share capital, which would represent 8% of the general number of votes on the General Meeting of PEM existing as of the day of signing the agreement, in the period from 1 April 2017 to 1 January 2022 in exchange for a cash contribution. Content of the agreement was approved by the Supervisory Board of PEM on 16 March 2017.

As part of the agreement, parties decided to dissolve management stock option agreement concluded on 26 June 2015.

Issue price of shares overtaken by the execution of subscription warrants amounts to PLN 57,61 per share. The programme has been divided into four even tranches of management shares, 68.475 shares each, falls on 2017, 2018, 2019 and 2020 respectively. Acquisition of rights to management shares of each tranche will take place on 1 April 2017, 1 January 2018, 1 January 2019 and 1 January 2020 respectively. Period for execution rights from warrants lasts 2 years for tranches no. 2, 3 and 4, for tranche no. 1 expires on 1 January 2019.

The execution of subscription warrants by parties is dependent on meeting certain conditions defined in the management stock option agreements. The first condition is applying a formal declaration on execution rights from subscription warrants for the annual tranche with indicating number of subscription warrants that are executed; the second condition is that there may be no Bad Leaver case, which takes place when dissolving managerial agreement with PEM with immediate effect.

The cost of this incentive program recognized in 2018 amounted to PLN 800 thousand (cost recognized in 2017 amounted to PLN 2.027 thousand).

Management stock option agreement for members of the Management Board

On 2 October 2017, the Supervisory Board of Private Equity Managers adopted a resolution regarding the adoption of an incentive program for two members of the Management Board of the Company. Management Board members participate in the incentive program through the right to take up B3 series subscription warrants authorizing them to convert warrants into Company shares. As part of the incentive program, the Company was to offer 10272 shares to the Management Board members. The issue price of the shares taken up by exercising the rights from the subscription warrants would amount to PLN 57,61 for each subscribed share. The company was to offer subscription warrants by 30 June 2018. The vesting period for acquired warrants expires on 31 December 2022.

The cost of this incentive program incurred in 2017 amounted to PLN 47 thousand.

On 16 October 2018, the Supervisory Board of Private Equity Managers adopted a resolution regarding the repeal of the resolution of 2 October 2017.

16. Employee benefits

The following amounts related to employee benefits are recognized in the statement of comprehensive income:

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Fixed remuneration*	9 537	8 233
Variable remuneration**	8 607	29
Social insurance	286	220
Share-based incentive programme***	753	4 151
Other employee benefits	173	144
	19 356	**12 777**

*Increase in fixed remuneration stems from increase in number of employees in PEM AM, as well as from increase in global remuneration level.
**The increase in cost of variable remuneration in 2018 results mainly from the fact that in the current financial year significant costs of variable remuneration for Carry fees have been incurred.
***The decrease in the costs of the incentive program in 2018 as compared to 2017 results from the recognition in 2017 of the cost of incentive program related to the conversion of Carry fee for the exit from the investment in Wirtualna Polska in the amount of PLN 2,038 thousand and costs due to a new incentive program addressed to the President of the Management Board (PLN 2,027 thousand) and other Members of the Management Board (PLN 47 thousand).

Remuneration for key personnel of the parent entity

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Management Board		
Fixed remuneration	1 268	1 297
Variable remuneration*	777	(652)
Share-based incentive programme**	753	4 113
	2 798	**4 758**
Supervisory Board		
Remuneration for the Supervisory Board	301	303
	301	**303**

*In connection with the decision to grant the President of the Management Board an incentive program settled in PEM shares related to the exit from the Wirtualna Polska investment and the Carry fee due, the provision for Carry fee created in the second half of 2016 was dissolved in the first quarter 2017, while in its place the cost of the incentive program in the amount of PLN 2,038 thousand was recognized in the same period, which reduced the cost of variable remuneration and increased the costs of the incentive program in 2017.

**The decrease in the costs of the incentive program in 2018 as compared to the comparative period results from the recognition in 2017 of the incentive program costs in connection with the Carry fee conversion for the exit from the investment in Wirtualna Polska in the amount of PLN 2,038 thousand and costs due to the new incentive program addressed to the President of the Management Board (PLN 2,027 thousand) and other members of the management board (PLN 47 thousand).

Employment / execution of function in the parent entity

	Balance as of 31.12.2018 Number of employees	Balance as of 31.12.2017 Number of employees
Management Board	3	4
Supervisory Board	5	6
Operational Staff	6	5
	14	**15**

Borrowings granted to members of the Management Board

The Group did not grant borrowings to Management Board Members in 2018 and 2017.

Advances paid to members of the Management Board

The Group did not pay advances to Management Board Members in 2018 and 2017.

17. Dividend

On 28 June 2018, the Ordinary General Meeting of Shareholders of Private Equity Managers S.A. adopted a resolution on the distribution of the Company's profit for 2017. The Ordinary General Meeting, in accordance with the recommendation of the Management Board, allocated the Company's net profit for the year 2017 in the amount of PLN 7,660,580.69 in total for the payment of the dividend.

In addition, the Ordinary General Meeting of Shareholders decided to use the Company's reserve capital in the amount of PLN 2,357,016.06 and to allocate it to dividend for the Company's Shareholders.

The total amount of the dividend after taking into account the above values amounted to PLN 10,017,596.75. The total number of shares in the share capital of the Company for which the dividend from the profits for the year 2017 was paid amounted to 3,423,769.

The Ordinary General Meeting of the Company fixed the dividend day on 9 July 2018 and the dividend payment date as of 9 October 2018.

Planned dividend for 2018

The Management Board of Private Equity Managers S.A. will recommend to the General Meeting of Shareholders not to pay the dividend from the profit for 2018.

18. Financial instruments

Items in the financial statements	Measurement method	Balance as of 31.12.2018 PLN'000	Balance as of 31.12.2017 PLN'000
Trade and other receivables	Measured at amortised cost	17 041	15 375
Trade and other payables	Measured at amortised cost	6 544	9 720
Loans	Measured at amortised cost	39 402	29 682
Bills of exchange	Measured at amortised cost	8 318	13 738

Fair value is an amount for which an asset component could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction, other than a forced sales or liquidation and is best reflected by a market price if such is available.

The Group holds instruments which are not measured at fair value in the statement of financial position. These instruments include cash and cash equivalents, trade and other and financial receivables and payables, of which on bills of exchange and bonds. The Group assumes that for the financial instruments mentioned, which are not measured at fair value on the statement of financial position, their fair value is close to their carrying value.

19. Contingent assets and liabilities

As of the day of preparation these financial statements, the Group did not have contingent assets or liabilities.

20. Litigation and administrative proceedings

There are no litigation or administrative proceedings pending against the Company or its subsidiaries.

21. Remuneration paid to auditor of Financial Statements (gross)

	For the period: from 01.01.2018 to 31.12.2018 PLN'000	For the period: from 01.01.2017 to 31.12.2017 PLN'000
Audit of annual financial statements	391	306
Review of half-year financial statements	102	102
Other services	22	146
	515	**554**

Entities providing financial audit services to companies from the Private Managers Group S.A. are KPMG Audyt Sp. z o.o. Sp. k. and Ground Frost Euroin Audyt Sp. z o.o.

22. Subsequent events

Redemption of own shares by PEM Asset Management Sp. z o.o. and registration of the share capital reduction

On 27 February 2019, the share capital of PEM AM was registered in the Register of Entrepreneurs of the National Court Register as a result of redemption of the acquired own shares.

Resignation of a member of the Supervisory Board of MCI Capital TFI S.A.

On 29 March 2019, MCI Capital TFI S.A. received the resignation from Supervisory Board Member Ms. Ilona Małgorzata Weiss effective on 31 March 2019.

23. Operating segments

There are no separate operating or geographical segments in the Group. The Capital Group PEM constitutes a separate and exclusive operating segment as a whole - **investment funds management.** It includes assets and liabilities related to external operations of providing management services for the benefit of investment funds (particularly funds of the private equity, venture capital and mezzanine debt type).

24. Related entities

Entities constituting the Capital Group

Composition of the Private Equity Managers S.A. Capital Group on 31 December 2018 was presented in an additional information containing significant accounting principles and other explanatory information.

Transaction with related parties as of 31 December 2018:

	Major investor	Other related entities*	Total
Receivables:			
Trade receivables	-	5	**5**
Liabilities:			
Trade payables	-	732	**732**
Revenues and expenses:			
Cost of base activities	-	(149)	**(149)**

Operating expenses	-	(1 411)	**(1 411)**
Financial costs	-	(2)	**(2)**

*As other related entities the Group classifies the following companies: MCI Capital S.A. and MCI Fund Management Sp. z o.o.

Transaction with related parties as of 31 December 2017:

	Major investor	Other related entities*	Total
Receivables:			
Trade receivables	-	6	**6**
Liabilities:			
Trade payables	-	3 639	**3 639**
Revenues and expenses:			
Cost of base activities	-	(1 018)	**(1 018)**
Operating expenses	-	(1 281)	**(1 281)**
Financial costs	-	(24)	**(24)**

*As other related entities the Group classifies the following companies: MCI Capital S.A., MCI Fund Management Sp. z o.o. and MCI Fund Management Sp. z o.o. sp.j.

Transactions with the Management Board and Supervisory Board

Management Board

Transactions with members of the Management Board are presented in **Note No. 15 "Share based incentives"** and **Note No. 16 "Employee benefits"**.

Supervisory Board

Members of the Supervisory Board of the companies comprising the Group, were not parties of transactions with companies from the Group in 2018, other than receiving remuneration.

Members of Management of PEM SA, as of 31 December 2018, holding a position in subsidiaries

Subsidiaries/Board Members same as in PEM	Members of Management Board		
	Tomasz Czechowicz	**Ewa Ogryczak**	**Krzysztof Konopiński**
MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A.	yes	yes	yes
PEM Asset Management Sp. z o.o.	yes	yes	yes
PEM Seed Capital Sp. z o.o.	no	yes	no
Energy Mobility Partners Sp. z o.o.	yes	yes	yes
MCI Asset Management Spółka z ograniczoną odpowiedzialnością	no	yes	yes
MCI Asset Management Spółka z ograniczoną odpowiedzialnością V S.K.A*	no	yes	yes
Helix Ventures Asset Management Sp. z o.o.	no	no	no

*General Partner of the company is MCI Asset Management Sp. z o.o.

25. Description of material accounting policies

The key accounting principles applied in the preparation of these consolidated financial statements are presented below.

Comparative data

The accounting principles applied to comparative data are identical to those adopted for information as at and for the twelve months ended 31 December 2018, except for changes resulting from the application of the new International Financial Reporting Standards, effective from 1 January 2018 (IFRS 9 and IFRS 15) described in Note 26.

Continuation as going concern

The company's Financial Statements have been prepared on the assumptions that the company shall continue its operations in the foreseeable future comprising a period not shorter than 12 months after the reporting date, i.e. 31 December 2018. As at the Financial Statement's date the Company's Management Board do not state the existence of any facts and circumstances which would indicate threats to the company's continuation as going concern within 12 months after the reporting date as a result of intentional or forced neglect or material limitation of the company's hitherto activities.

Foreign currencies

At the end of the reporting period, all assets and liabilities expressed in foreign currencies are translated at the average NBP exchange rate for that day. Profits and losses resulted from currency conversion are referred directly to the profit and loss account.

Revenues and costs

Revenues and costs are recognised on an accrual basis, i.e. in the reporting period which they relate to, regardless of the day of receipt or making payment.

Management revenues

Revenues from the performance of contracts in accordance with IFRS 15 are recognized when the control of goods or services is transferred to the client in the amount of the transaction price. Management income includes remuneration for permanent and variable management for the management of investment funds, determined based on the net asset value of the funds. Management income is not recognized when there is significant uncertainty as to the possibility of obtaining future economic benefits.

In order to determine the transaction price, the Group takes into account the terms of the contract, other documents giving the basis for recognizing revenue and the usual commercial practices used by it. The transaction price is the amount of remuneration which, in line with the Group's expectations, will be payable in exchange for the transfer of promised goods or services to the client, with the exception of amounts collected on behalf of third parties (for example taxes on sale). The remuneration specified in the contract with the client may include fixed amounts, variable amounts or both.

If the remuneration specified in the contract includes a variable amount, the Group estimates the amount of remuneration to which it will be entitled in exchange for the transfer of the promised goods or services to the client.

The amount of remuneration may vary due to discounts, rebates, credits, price concessions, allowances, performance bonuses, penalties and other similar factors. The promised remuneration may also change if the Group's right to remuneration depends on the occurrence or absence of a specific event in the future. The variable nature of the remuneration can be clearly stated in the contract. In addition, the promised remuneration is variable if any of the following circumstances occur:

- based on usual commercial practices, published policy or specific Group statements, the client has a reasonable expectation that the entity will accept the amount of remuneration lower than the price specified in the contract. This means that there is an expectation that the Group will give the customer a price concession. Such a price concession can be defined as a discount, rebate, reimbursement or credit;
- other facts and circumstances indicate that the Group intends to give the customer a price concession at the time the contract is concluded with the client.

Any goods or services sold in packages that can be distinguished as part of a package, the Group recognizes separately, in addition, any discounts and rebates (if any) regarding the transaction price are generally allocated to individual components of the package. If the amount of income is variable, variable amounts are

included in revenues, if there is a high probability that in the future there will be no reversal of the revenue recognition as a result of revaluation.

Depending on the meeting certain criteria, the revenues related to the separated benefits are:
- settled in time, illustrating the performance of the contract by the Group, or
- recognized all at once, when the control over goods or services is transferred to the client.

Management revenues are recognized in accordance with the first method, i.e. they are settled over time in a way that illustrates the performance of the contract by the Group.

Cost of base activities and general administrative expenses

The costs of base activities and general and administrative expenses are recognized in accounting records on the day they are incurred.

The costs of base activities are costs that are directly related to the revenues of a given year. Their incurrence is connected with obtaining by the Group revenues from base activity. The base activity costs include, among others:
- distribution costs incurred when selling investment certificates,
- above-the-limit costs of funds covered by TFI, in line with statutes of funds,
- costs related to auxiliary activities in relation to records of funds' participants kept by TFI.

General administration expenses relate to maintenance of companies and securing their orderly functioning. General administration expenses include i.a.:
- remuneration and employee benefits, as well as social insurance costs (this applies to persons employed in companies from the PEM Capital Group on the basis of an employment contract, commission contract or a specific work contract),
- costs of external services are mainly the costs of remuneration of persons cooperating with companies from the PEM Capital Group, who are not employed under a contract of employment, contracts of mandate or contracts for specific work), costs of consultancy and legal services, accounting costs, marketing costs, auditing services costs, costs of rent, costs of information services, etc.,
- depreciation of fixed and intangible assets,
- use of energy and materials,
- taxes and charges,
- other costs.

Employee benefits

Amounts of short-term employee benefits other than on account of employment termination and compensation benefits are recognised as liabilities, after acknowledging all amounts which have already been paid, and at the same time they are disclosed as costs of the period (in costs of remuneration), unless the benefit shall be recognised as original costs of the asset component.

Remuneration for exit from investment (Carry fee)

The remuneration for exit from the investment (Carry fee) is calculated based on the parameters from the actual purchase offer for a given investment (partial or full exit) and cannot exceed 5% of the net profit realized on a given investment calculated as the difference between revenues from sale of investments (sale price) and other investment income obtained during the life of the investment and expenditure incurred for a given investment and related to this investment, increased by 10%, i.e. expected return on investment (so-called hurdle rate) in the period from the moment of incurring a given expenditure until the income from the sale of the investment of shares / stocks to the fund is received in accordance with the agreement concluded with the manager of the investment and the remuneration policy in force in the Group.

The Group creates provisions for the variable remuneration (Carry Fee). Provisions are calculated based on the available parameters at the balance sheet date, most accurately reflecting the estimated hypothetical expected net profit for a given investment as at the balance sheet date, calculated as the difference between the fair value of a given investment at the balance sheet date and the investment income earned by the balance sheet date (for example, dividends), and the expenditures incurred for a given investment and related to this investment, increased by 10%, i.e. expected return on investment (the so-called hurdle rate) in the period from the moment of incurring the expenditure to the balance sheet date. The provision for remuneration for management / exit from the investment is created in the amount of 5% of the hypothetical net profit for a

given investment. The initial moment of creating a provision for remuneration for management / departure from the so-called the obligatory event is the first moment of the valuation increase to the fair value of a given investment, more than the expenditure increased by 10%, i.e. the expected return on investment (hurdle rate) resulting in the net profit determined in the manner referred to above. The provision is updated on a quarterly basis based on a quarterly revaluation to the fair value of a given investment in the company in the portfolio. The provision is adjusted by the fund managers rotation coefficient. The provision is created / updated for all companies in the portfolio of managed funds, and then aggregated and recognized as an increase or decrease in the cost of a given period.

According to Capital Group PEM policy, provision for variable remuneration Carry fee is created in managing company, i.e. PEM Asset Management Sp. z o.o., where individuals responsible for investment management are employed. In case of full or partial disinvestment from particular investment the general provision is converted into individual provision, i.e. allocated to particular individuals responsible for investment management. (if disinvestment is certain but not all parameters from the buy offer are known) or liability resulting from variable remuneration Carry fee (if all parameters from the buy offer are known). For individuals responsible for investment management employed in PEM provision/liability for variable remuneration Carry fee is booked for these individuals in PEM. Then, general provision (without allocation on particular managers) is unwound in managing company and a provision/liability in PEM is booked. The way of provision/liability calculation does not change.

Remuneration for raising funds for future investments (Fundraising fee)

Remuneration for raising funds for future investments relates to:
- obtaining debt financing to finance investments,
- placing the issue of investment certificates of funds managed by CG PEM,
- placing the issue of PEM's shares.

Provisions for the remuneration mentioned above are created in the month following the month in which one of the events defined above took place.

Share-based payments

Employee benefits include shares, share options and other equity instruments issued by a company, which meet the criteria of IFRS 2 related to the equity-settled programme. Measurement at fair value of the programme is performed for each programme participant with the acknowledgement of the period of obtaining entitlements, at the moment when the entitlement is granted and is recognised as cost of remuneration in the income statement and in the equity under Other reserve capital.

Share based payments between entities from the Capital Group

Capital Group PEM, operates a share-based remuneration system in form of parent entity shares for the management of its subsidiaries. The parent entity is obliged to settle transactions, i.e. Issue of PEM shares or subscription warrants entitling them to take up PEM shares (this is not the responsibility of the subsidiaries). Taking into account the settlement system, share payment is treated as transaction settled in equity instruments according to IFRS 2 ”Share-based payment”. The costs incurred in this regard are recognized by the subsidiary in which the employed manager received remuneration in PEM shares or warrants entitling to acquire PEM shares.

Income tax

The obligatory charges to profit include current tax and deferred tax. Current tax is calculated on tax profit/loss (tax base) for a given reporting period. Tax profit/ loss differs from net accounting profit/ loss due to exclusion of taxable income and tax-deductible costs in the following years and the items of costs and income which will never be taxable. Taxes are calculated based on tax rates applicable in a given reporting period.

Deferred tax is calculated using the balance sheet method as tax to be paid or reimbursed in the future on differences between the carrying values of assets and liabilities and the respective tax values applied to calculate the taxable amount.

Deferred tax provision is established on all positive temporary differences subject to taxation, whereas a component of deferred tax assets is recognised up to the amount in which it is likely to reduce future tax profits by recognised negative temporary differences.

No deferred tax asset or liability is recognised when a temporary difference relates to goodwill or to the initial recognition of another asset or liability in a transaction which affects neither taxable income nor accounting profit.

The value of the deferred tax component is subject to an analysis as at each reporting date and in the case when the expected future tax income is insufficient to realise the component of assets or part thereof, it is written off.

Deferred tax is calculated using tax rates that will apply when the position is realized.

Deferred tax is calculated with tax rates which are expected to apply when temporary differences reverse. Deferred tax is recognised in the statement of comprehensive income, except for when it relates to items directly recognised in the equity. In the latter case, deferred tax is also charged directly to equity.

In connection with the establishment of the Tax Capital Group, during the Tax Group, the companies comprising the Group are obliged to maintain a tax return rate of at least 2% for each tax year (in the tax year started on 1 July 2018) and 3% (in taxes ended by 30 June 2018) calculated as a share of revenue in revenues).

Losses generated by the companies before the establishment of the Tax Group are not subject to expiration. For this reason, companies are entitled to settle tax losses in the next five consecutive tax years, however, the duration of the Tax Group should not be taken into account when calculating the following tax years consecutively.

Financial assets and liabilities

Rules applied since 1 January 2018

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes party to a binding agreement.

Financial instruments are classified into the following categories: financial assets measured at amortised cost; financial assets measured at fair value through other comprehensive income; financial assets measured at fair value through profit or loss; financial liabilities measured at fair value through profit or loss and financial liabilities subsequently measured at amortised cost.

Financial assets are presented in following items:

- bond receivables,
- loans granted,
- cash and cash equivalent,
- trade and other receivables.

Financial liabilities are presented in following items:

- bank loans,
- bond liabilities,
- bills of exchange,
- trade and other payables.

Upon initial recognition, financial assets and liabilities are measured at fair value, increased, in the case of a financial asset or liability other than at fair value through profit or loss, by transaction costs that can be directly attributed to the acquisition or issue of a financial asset or financial liability.

The valuation of financial assets after initial recognition, in the case of receivables from bonds and loans granted, is carried at amortized cost using the effective interest rate method, in the case of trade receivables, valuation is made in the amount requiring a payment less write-offs for expected credit losses.

The valuation of financial liabilities after initial recognition, in the case of loans, bond liabilities and bills of exchange is carried out at amortized cost using the effective interest rate method, in the case of trade and other liabilities valuation is made in the amount due.

Impact of application of IFRS 9 „Financial instruments" was described in **Note 26 *„Impact of amendments to the standards on financial statement"***.

Rules applied until 31 December 2017

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes party to a binding agreement.

Financial instruments are classified into the following categories: financial assets or financial liabilities measured at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, other financial liabilities.

Financial income and costs

Financial income and costs include interest generated by a given component of financial assets or financial liabilities and are recognized in accordance with the effective interest rate method.

Impairment of financial assets

Rules applied since 1 January 2018

At each reporting date, the Group assesses whether credit risk of a given financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

In order to identify a significant increase in credit risk, the Group applies the following qualitative criteria:

- Payments that are more than 30 days past due, unless the Group has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due;
- Forbearance, which is extension of the repayment date or splitting the payment due into instalments except for cases, where extension of repayment date or splitting payment due into instalments is the tool of managing liquidity and concern transactions with related parties, investment funds managed by MCI Capital TFI S.A. and portfolio companies of these funds, and the Group has full control over it;
- Events associated with increase in risk, so called "soft evidence" of impairment, identified as part of analysis of relationship with contractor.

At each reporting date, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

In the case of trade receivables, the Group always measures an impairment loss on the expected credit losses at an amount equal to full lifetime expected credit losses.

The Group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

The impact of the application of IFRS 9 "Financial instruments" is described in **Note 26 "*Impact of amendments to the standards on the financial statements*"**.

Rules applied until 31 December 2017

As at balance sheet date, the Company assesses whether there is any objective indication of impairment of a financial asset or a group of financial assets

If there is an objective indication that the value of assets measured at amortised cost has been impaired, an impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The amount of impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulties of the issuer or obligor,
- contractual default,
- the lender, for reasons relating to the borrower's financial difficulty, granting to the borrower a concession,
- it becoming probable that the borrower will enter bankruptcy or another financial reorganisation,
- the disappearance of an active market for that financial asset because of financial difficulties.

If the analysis shows that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses their impairment. Assets that are individually reviewed for impairment and for which an impairment loss has been recognised or it has been concluded that the existing impairment loss will not change, are not taken into account in collective review of assets for impairment. If an impairment loss decreases in a subsequent period, and the decrease may be objectively associated with an event that occurred after the impairment loss recognition, the recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, in so far as the carrying amount of the asset does not exceed its amortised cost/recoverable amount as at the reversal date.

Cash and cash equivalents

Cash and its equivalents disclosed in the statement of financial position include cash at bank and in hand as well as short-term deposits with an original maturity period up to three months.

Provisions for liabilities

The Group recognises a provision if the Group has a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. If the Group anticipates that costs for which provisions have been recognised will be recovered, e.g. under an insurance agreement, any such recovery is recognised as a separate item of assets but only when it is practically certain to occur. Cost related to a given provision is recognised in profit or loss net of any recoveries. Provisions are not recognised for future operating losses.

Consolidation

Subsidiaries

Subsidiaries are all entities in which investments were made and which are controlled by the Company. In line with IFRS 10 a Company controls a subsidiary in which an investment was made if and only if it simultaneously:

- exercises authority over a subsidiary in which an investment was made;
- is subject to exposure to variable profit/ loss or is entitled to variable profit/ loss due to its engagement in the subsidiary in which an investment was made;
- can use the possibility to exercise authority over a subsidiary in which an investment was made to affect its profit/loss.

The company consolidates subsidiaries with the full method. The consolidation includes all entities included in the Private Equity Managers SA Capital Group. mentioned in the additional information containing significant accounting principles and other explanatory information on page 7.

Principles of consolidation

The consolidated financial statements include financial data of Private Equity Managers S.A. and financial data of subsidiaries as at 31 December 2018. The financial statements of subsidiaries are prepared as at the same reporting date as the statements of the parent company and in accordance with the same accounting principles in all material respects.
All balances and transactions between the Group's entities, including unrealized profits resulting from transactions within the Group, have been completely eliminated. Unrealized losses are also eliminated, unless they provide evidence of impairment, which should be included in the consolidated financial statements.

Goodwill

Goodwill arising on the acquisition of an entity is originally recognised at acquisition price which is a surplus of:

- consideration transferred,
- amount of all non-controlling (minority) shares in the acquired entity, and
- in the case of a merger of entities carried out in stages - fair value as at the acquisition date of the acquired entity over the net amount determined as at the acquisition date of identifiable acquired assets and liabilities.

As at the asset acquisition date, liabilities of the acquired entity are measured at fair value. Excess of acquisition price above the share of the acquiring entity at fair value of identifiable acquired net assets of the acquired entity is recognised as goodwill. If the purchase price is lower than fair value of identifiable acquired net assets the difference is recognised as profit in the statement of comprehensive income for the period in which the acquisition took place. Minority shares are recognised in a relevant proportion of assets and equity fair value. Losses attributable to minority shareholders above the value of their shares reduce equity of the parent company in the following periods. At initial recognition, the goodwill is disclosed at acquisition price less any accumulated impairment losses.

Impairment of goodwill

Impairment of a non-financial asset is identified when the book value is higher than recoverable amount. Recoverable amount corresponds to fair value less costs of sales and value-in-use, whichever is higher.

Determining the value-in-use relates to estimates of future cash flows expected from continued use or disposal of an asset and to discounting these values. These principles are also applied to tests for impairment of goodwill which are carried out on an annual basis. A detailed description of principles applied to tests for impairment of goodwill was presented in **Note No. 6 "Goodwill"**.

Recognition of transactions under common control according to book values

Business combinations under common control are excluded from the scope of IFRS. In this situation, in accordance with the recommendation contained in IAS 8 "Accounting principles (policy), changes in estimates and correcting errors", in the absence of specific regulations within IFRS, Private Equity Managers S.A. adopted an accounting policy widely used for all merger transactions under common control involving the recognition of such transactions at book values.

The acquirer recognizes the assets and liabilities of the unit being acquired at their current book value, adjusted only to harmonize the accounting policies of the entity acquired. Goodwill and negative goodwill are not recognized.

Any difference between the book value of the net assets acquired and the fair value of the payment is recognized in the Group's equity. Using a method based on book values, comparative data on the historical periods presented are not restated.

Amendments to standards

Standards and interpretations endorsed by the EU not yet applicable to annual periods beginning on 1 January 2018

Standards and Interpretations endorsed by the EU	*Type of expected change in accounting policies*
IFRS 16 Leases	IFRS 16 replaces IAS 17 *Leases* and the related interpretations. For lessees, the new Standard eliminates the existing distinction between finance and operating leases and discloses most leases in the statement of financial position. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position. Rights of use are amortised, and interest is charged on the lease liability. This will increase initial lease costs, even where lease parties have agreed on fixed annual payments. The new standard provides for a number of exemptions with limited applicability, including: - leases with a lease term of 12 months or less and containing no purchase options, and - leases where the underlying asset has a low value. Lessors will continue to classify leases as either operating or finance and thus recognise most leases without any changes. The impact of the standard on the Group companies has been described in Note 27.
IFRIC 23 Uncertainty over Income Tax Treatments	IFRIC 23 provides guidance on income tax treatment where the applied treatment has not yet been accepted by the relevant tax authorities and is intended to enhance clarity. From the IFRIC 23 perspective, **the key issue is assessing the probability of a tax treatment being accepted by the relevant tax authorities. If it is concluded that it is probable that a particular uncertain tax treatment will be accepted by the relevant tax authorities, the tax should be recognised in the financial statements consistently with the relevant income tax filings without reflecting the uncertainty over current and deferred tax treatment. Otherwise, taxable profit (tax loss), tax bases and unused tax losses should be recognised using the most likely amount method or the expected value method (sum of probability-weighed possible solutions), depending on which provides better predictions of the resolution of the uncertainty. The Group must assume that tax authorities will examine the uncertain tax treatment** and will have full knowledge of all relevant information when doing so. The Group does not expect the Interpretation to have a material effect on its financial statements, because there are no significant uncertainties related to income tax recognition.
Amendments to IFRS 9 Financial Instruments	These amendments allow prepayable financial assets with negative compensation representing contractual cash flows that are solely payments of principal and interest on the principal amount outstanding to be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss as long as such financial assets meet the remaining requirements applicable under IFRS 9. The Group does not expect the amendments to have a material effect on its financial statements on initial application as it has no prepayable financial assets.
Amendments to IAS 28 Investments in Associates and Joint Ventures	The amendments clarify that entities apply IFRS 9 Financial Instruments to investments in associates and joint ventures, which are not accounted for using the equity method. The Group does not expect the amendments to have a material effect on its financial statements on initial application.

In addition, as at 31 December 2018, the following standards and interpretations have been adopted by the IASB, but not yet approved by the EU:

Standards and Interpretations not yet endorsed by the EU	*Type of expected change in accounting policies*
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	The amendments clarify that in the case of a transaction with an associate or joint venture, the extent to which the gain or loss related to the transaction should be recognised depends on whether the assets sold or contributed to an associate or joint venture constituted a business: - the gain or loss is recognised in full where the contributed assets meet the definition of a business (irrespective of whether such business has the form of a subsidiary or not). - the partial gain or loss is recognised when the transaction involves assets that do not constitute a business, even if those assets were part of a subsidiary. The Group does not expect the amendments to have a material effect on its financial statements as it has no associates or joint ventures.
IFRS 17 *Insurance Contracts*	IFRS 17, which replaces the transitional IFRS 4 Insurance Contracts standard introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions. IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be recognised at present value rather than historical cost. The Group does not expect the Standard to have a material effect on its financial statements as the Group is not involved in any insurance business.
Annual Improvements to IFRS Standards 2015–2017 Cycle	The Annual Improvements to IFRS Standards 2015–2017 Cycle contain four amendments. The key amendments: - clarify that the entity elects to remeasure an investment in a joint venture when it obtains control of the joint venture in accordance with IFRS 3 Business Combinations;

Standards and Interpretations not yet endorsed by the EU	*Type of expected change in accounting policies*
	- clarify that an entity does not remeasure an investment in a joint venture when it obtains joint control of a joint venture in accordance with IFRS 11 Joint Arrangements; - clarify that an entity should always recognise the tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the transaction or event that gave rise to the recognition of the dividend was recognised; - clarify that an entity should derecognise from borrowed funds without a specific purpose those funds specifically borrowed to finance the acquisition of a qualifying asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale have been completed; funds borrowed specifically to fund the acquisition of a qualifying asset are not funds borrowed to fund the acquisition of a qualifying asset after the qualifying asset is ready for its intended use or sale. These amendments are not expected to have a material on the Group's financial statements.
Amendments to IAS 19 *Employee Benefits (Plan Amendment, Curtailment or Settlement)*	The amendments to IAS 19 explain how entities recognise expenses when there is a change in a defined benefit plan. The changes require the entity to use current assumptions in the event of a plan amendment, curtailment or settlement in order to determine the current service cost and net interest for the remaining reporting period from the plan amendment date. These amendments are not expected to have a material on the Group's financial statements.
Amendments to IFRS 3 *Business Combinations*	The amendments narrow down and clarify the definition of a business. They also enable a simplified assessment of whether a set of assets and activities constitutes a group of assets and not a business. These amendments are not expected to have a material on the Group's financial statements.
Amendments to IAS 1 *Presentation of financial statements* and IAS 8 *Accounting policies, changes in accounting estimates and errors*	The amendments harmonise and clarify the definition of "Material" and provide guidelines to increase consistency in the application of this concept in international financial reporting standards. These amendments are not expected to have a material on the Group's financial statements.

26. The effect of applying the new standards on the financial statement

IFRS 9 *Financial instruments*

IFRS 9 “Financial Instruments” is effective for annual periods beginning on or after 1 January 2018.

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

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

Financial liabilities are classified into the following categories:

1. financial assets measured at amortised cost,
2. financial liabilities measured at fair value through profit or loss.

Assets are classified on initial recognition depending on an entity’s financial instrument management model and the characteristics of contractual cash flows from such instruments.

Depending on the business model, financial assets may be classified as:

- held for the purpose of collecting contractual cash flows,
- held for the purpose of collecting contractual cash flows or for sale,
- held for trading and other.

The assessment of the business model is made at the initial recognition of the financial asset (with the exception of the first adoption of IFRS 9 – when the Group classifies financial assets in accordance with the business models applied at the date of the implementation of the standard i.e. 1 January 2018).

The business model criterion refers to the way the Group is managing financial assets in order to generate cash flows. The Group has analysed its business models and performed SPPI tests (to assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding) for each group of financial assets, based on which it has classified groups of financial assets into each of the categories listed above and applied measurement methods appropriate to each of them.

The analysis of business models and the results of SPPI tests showed that the application of the new standard did not result in a significant change in the categories of the Group's financial assets and liabilities presented in these financial statements, and did not affect their measurement as at 1 January 2018.

As at the date of adoption of the standard, 1 January 2018, the classification and carrying amounts of the Groups' financial instruments were as follows:

Item of financial statement	Measurement method		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
	31.12.2017	01.01.2018	31.12.2017	01.01.2018
Trade and other receivables	Measured at amortised cost	Measured at amortised cost	15 375	15 375
Trade and other payables	Measured at amortised cost	Measured at amortised cost	9 720	9 720
Bank loans	Measured at amortised cost	Measured at amortised cost	29 682	29 682
Bills of exchange	Measured at amortised cost	Measured at amortised cost	13 738	13 738

In accordance with IFRS 9, financial assets are classified into the following measurement categories:

- Stage 1 – non-impaired exposures, for which expected credit loss is estimated for the 12-month period;
- Stage 2 – non-impaired exposures, for which a significant increase in risk has been identified and for which expected loss is based on probability of default over the entire lending period;
- Stage 3 – impaired exposures.

In order to identify a significant increase in credit risk, the Group applies the following qualitative criteria:

- Payments that are more than 30 days past due, unless the Group has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due;
- Forbearance, which is extension of the repayment date or splitting the payment due into instalments except for cases, where extension of repayment date or splitting payment due into instalments is the tool of managing liquidity and concern transactions with related parties, and the Group has full control over it;
- Events associated with increase in risk, so called "soft evidence" of impairment, identified as part of analysis of relationship with contractor;

The Group calculates the allowance for expected credit losses at an amount equal to lifetime expected credit losses for trade receivables, cash and cash equivalents and other financial assets. The allowance for expected credit losses is calculated using the provision matrix – the Group uses its historical credit loss experience to estimate the lifetime expected credit losses on the financial assets.

Calculation of the allowance for expected credit losses recognised in the financial year ended 31 December 2018 indicated an immaterial amount of allowance for expected credit losses. Therefore, the Group did not recognise this allowance.

IFRS 15 *Revenues from Contracts with Customers*

International Financial Reporting Standard 15 Revenue from contracts with customers ("IFRS 15") established the so-called The Five Steps Model for recognizing revenues resulting from contracts with customers. In accordance with IFRS 15, revenues are recognized in the amount of remuneration to which - according to the entity's expectation - it will be entitled in exchange for these goods or services. The new standard replaced all previous requirements regarding the recognition of revenues in accordance with IFRS.

IFRS 15 defines a five-stage revenue recognition model:

Stage 1: *Identification of the contract with the client.*

This stage consists in making sure that the contracts with clients are valid and are actual transactions. According to IFRS 15, a contract with a client is a contract if it results in enforceable rights and obligations and the following criteria are met:

- the parties have approved the contract and are obliged to fulfil their obligations,
- the rights of each party to services are identifiable,
- it is possible to identify the payment terms for the services,
- the contract has economic content,
- it is probable that the companies from PEM Group will receive the remuneration they are entitled to in exchange for services. When assessing this criterion, the intent and ability of the buyer to pay remuneration within the period specified in the contract will be taken into account.

Stage 2: *Identification of separate obligations to perform the service.*

The obligation to perform the service corresponds to the promised purchaser of certain services that may be perceived as "separate" from other services promised in the contract. The obligation to provide the service will be perceived as separate if the following two criteria are met:

- the buyer may benefit from the service separately or in combination with other shared resources,
- it is possible to separate the promise of the companies from the PEM Group to transfer the buyer to the service from other promises in the contract.

Stage 3: *Defining the transaction price.*

The transaction price is the remuneration which the companies from the PEM Group expect to receive in exchange for the services provided. Determining the transaction price can be complicated if the contract includes variable remuneration (e.g. bonuses, penalties, refunds, clauses assuming the possibility of price change, etc.), significant share of financing costs, non-cash remuneration or amounts due to the buyer.

Variable remuneration is included in the transaction price only when there is a high probability that its inclusion will not result in a "significant reversal of income" in the future as a result of revaluation. A significant reversal of the revenue approach occurs when a subsequent change in the estimated amount of variable remuneration results in a significant decrease in the cumulative value of recognized revenues from a given customer. Variable remuneration includes each variable contractual amount, including for example performance bonuses, penalties, discounts, rebates.

Stage 4: *Allocation of the transaction price to separate obligations to perform the service.*

If the contract contains more than one separable obligation to provide benefits, the Group companies allocate the transaction price to individual liabilities based on their individual sales prices.
If the transaction price includes a variable amount, it should be analysed whether this amount applies to all or only some of the obligations to perform the benefits contained in the contract. If the criteria included in the standard are not met for the amount of the variable referring only to certain liabilities, it should be allocated to all obligations to perform the benefits included in the contract.

Stage 5: *Revenue recognition at the time of performance of the contractual obligation.*

Revenue is recognized when the companies from PEM Group fulfil their obligation to perform the service by providing the customer with control over the service. Therefore, the revenue is recognized either in time or over time.

Control is defined as "the ability to directly use and derive substantially all other benefits from a given asset", i.e. a service.

The liability is considered to be executed for a specified period of time (so also the revenue is recognized in time) when at least one of the following conditions is met:

- the customer receives and consumes the benefits of work during their performance by the companies from the PEM Group,

- the work of Companies from the PEM Group contributes to the creation or increase of assets (e.g. during work in progress) in such a way that the client controls these assets at the moment of their creation or enhancement,
- the work of the companies from the PEM Group does not contribute to the creation of alternative assets and has the right to pay for the work already carried out.

If the commitment is not carried out for a certain period of time, the following conditions must be taken into account to determine when the asset control has been transferred to the customer:

- The companies from the PEM Group transferred to the customer the physical possession of assets,
- Companies from PEM Group have the current right to demand payment for assets,
- The client accepted the assets,
- the customer has significant risks and rewards associated with possession of the asset,
- the customer has a legal title to assets.

The Group applied IFRS 15 from 1 January 2018 using a modified retrospective approach and performed a detailed analysis of the impact of IFRS 15 on the applied principles. The Group analysed the main types of contracts for which it receives remuneration recognized as the management revenues. The Group estimated the impact of IFRS 15 and determined, taking into account the nature of the revenues acquired, that IFRS 15 does not have a material impact on the timing and manner of recognizing revenues and therefore has no material impact on the financial statements.

27. Expected impact of the new standards applied for the first time for the reporting period beginning on 1 January 2019

IFRS 16 Leasing

The Group analysed the impact of applying IFRS 16 on the financial statements. As a result of the analysis, the rental fees for renting office space were measured. Based on preliminary calculations, the Group estimates that property, plant and equipment as well as financial liabilities will increase for the first time by approximately PLN 2.553 thousand for the first time. The standard will be applied for the first time for the reporting period beginning on 1 January 2019.

28. Financial risk management

Risks to which the Group is exposed:
- Market risk, including interest rate risk and currency risk,
- Liquidity risk,
- Credit risk,
- Risk associated with valuation of portfolio companies.

The most significant risks to which the Group is exposed are presented below.

MARKET RISK

INTEREST RATE RISK

The Group's exposure to risk arising on interest rates relates primarily to bank deposits, received loans and issued securities (bills of exchange and bonds).

The Group does not hedge the interest rate risk with financial derivatives. The Group uses sensitivity analysis to measure the interest rate risk.

Sensitivity analysis to the interest rate risk

The interest rate risk management concentrates on minimising fluctuations of interest-related cash flows on financial assets and liabilities of a variable interest rate. The Group is exposed to the interest rate risk in relation to the following categories of financial assets and liabilities:
- received bank loans,
- issued own debt securities.

CURRENCY RISK

In the period from 1 January to 31 December 2018, the Group did not conclude transactions that would expose it to significant currency risk.

LIQUIDITY RISK

Due to the character of transactions and of financial assets the liquidity risk is small. The Group manages the liquidity risk through monitoring payment deadlines and monies demand for servicing payments (ongoing transactions monitored on a weekly basis) and cash demand. Cash demand is compared against available sources of financing (especially by evaluating the possibilities of obtaining financing in the form of loans, borrowings, bonds) and it is confronted with investments with free monies. Since 14 July 2015 the Group has applied "Cash pool" system - a financial service enabling mutual balancing between companies in the Group. Due to this service, the Group has a stronger position for negotiations, higher creditworthiness and it uses cash more efficiently and decreases costs of interest.

The Company manages the risk through monitoring liquidity ratios based on carrying amounts, analysing the level of liquid assets in relation to cash flows and maintaining access to diverse sources of financing (of which also to credit facilities).

The liquidity management process is optimised through centralised management of funds in the Group where liquid excesses of cash generated by individual companies from the Group are invested in borrowings and other instruments issued by companies from the Group (less credit risk). The surpluses of the Company's cash are invested in short-term liquid financial instruments, e.g. bank deposits.

One of the liquidity risk management method is also maintaining committed and unused credit facilities. They reserve liquidity.

CREDIT RISK

The Group's credit risk is primarily related to bank deposits and trade receivables principally on calculating remuneration for fund management. The maximum amount put to credit risk equals carrying amounts of deposits and receivables. The Group concludes bank deposit agreements with entities of high creditworthiness and it deposits its cash for short periods. Receivables from management have short payment deadlines related to quarters for which remuneration is calculated.

RISK RELATED TO VALUATION OF PORTFOLIO COMPANIES

Risk related to measurement of portfolio companies affects the value of assets under management and the amount of received remuneration.

In 2018 the Group performed measurement at fair value of companies being investments of the managed funds with at least quarterly frequency. The measurement value translates into the value of assets under management, and hence is reflected in the amount of calculated remuneration (fixed or variable).

Due to the fact that funds managed by the Group invest their capital for 5 to 10 years, and the financing is usually received by companies not listed on the stock exchange, the measurement of assets under management carries a risk related to unfavourable changes to measurement of assets under management, and hence to the level of received remuneration. As a result, this could negatively affect the Group's profit/loss.

CAPITAL MANAGEMENT

The primary objective of the Group capital management is to maintain safe capital ratios which would support operating activities, increase value for shareholders and keep capital requirements imposed by legislation. As at 31 December 2018 and 31 December 2017 the Group met the capital requirement imposed by law.

In 2018, MCI Capital TFI S.A. was obliged to maintain equity in the amount of PLN 9.653 thousand (minimum capital requirement). As at 31 December 2018 the share capital of the Investment Fund Company amounted to PLN 22.869 thousand. No instances of regulatory capital requirement excesses occurred during 2018.