



MERCOR Group

Interim financial
statements for the
three months ended
December 31st 2022

Prepared in accordance with International
Financial Reporting Standards as endorsed by the
European Union

Gdańsk, February 24th 2023

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Consolidated financial highlights

Financial highlights	PLN '000		EUR '000	
	Apr 1–Dec 31 2022	Apr 1–Dec 31 2021	Apr 1–Dec 31 2022	Apr 1–Dec 31 2021
Revenue	469,276	359,110	99,803	78,420
Operating profit	54,940	33,233	11,684	7,257
Profit before tax	47,477	31,432	10,097	6,864
Net profit	36,827	25,100	7,832	5,481
Net cash provided by (used in) operating activities	50,784	6,576	10,801	1,436
Net cash provided by (used in) investing activities	(10,587)	(18,879)	(2,252)	(4,123)
Net cash provided by (used in) financing activities	(30,188)	13,956	(6,420)	3,048
Total net cash flows	10,009	1,653	2,129	361
Total assets	453,506	430,713	96,698	92,576
Non-current liabilities	91,131	97,528	19,431	20,962
Current liabilities	146,916	141,488	31,326	30,411
Equity	215,459	191,697	45,941	41,203
Share capital	3,915	3,915	835	841
Equity attributable to owners of the Parent	204,409	184,676	43,585	39,694
Number of shares	15,566,676	15,582,123	15,566,676	15,582,123
Earnings per share	2.37	1.61	0.50	0.35
Book value per share	13.13	11.85	2.80	2.55

Separate financial highlights

Financial highlights	PLN '000		EUR '000	
	Apr 1–Dec 31 2022	Apr 1–Dec 31 2021	Apr 1–Dec 31 2022	Apr 1–Dec 31 2021
Revenue	263,907	212,774	56,127	46,464
Operating profit	22,231	17,659	4,728	3,856
Profit before tax	18,971	24,490	4,035	5,348
Net profit	14,957	21,250	3,181	4,640
Net cash provided by (used in) operating activities	28,111	(9,491)	5,979	(2,073)
Net cash provided by (used in) investing activities	(5,787)	(6,306)	(1,231)	(1,377)
Net cash provided by (used in) financing activities	(23,035)	16,726	(4,899)	3,653
Total net cash flows	(711)	929	(151)	203
Total assets	315,887	314,523	67,354	67,603
Non-current liabilities	83,304	86,864	17,762	18,670
Current liabilities	82,014	81,980	17,487	17,621
Equity	150,569	145,679	32,105	31,312
Share capital	3,915	3,915	835	841
Number of shares	15,566,676	15,582,123	15,566,676	15,582,123
Earnings per share	0.96	1.36	0.20	0.30
Book value per share	9.67	9.35	2.06	2.01

Items of the statement of financial position have been translated into the euro at the mid rate quoted by the National Bank of Poland for the reporting dates, i.e. 4.6899 for December 31st 2022 and 4.6525 for March 31st 2022.

Items of the statement of comprehensive income, statement of changes in equity and statement of cash flows have been translated into the euro at the arithmetic mean of the mid rates quoted by the National Bank of Poland for the last days of the months covered by this report, i.e. 4.7020 for the period April 1st 2022–December 31st 2022, and 4.5793 for the period April 1st 2021–December 31st 2021.

Interim condensed consolidated statement of comprehensive income

	<u>Apr 1–Dec 31</u> <u>2022</u>	<u>Oct 1–Dec 31</u> <u>2022</u>	<u>Apr 1–Dec 31</u> <u>2021</u>	<u>Oct 1–Dec 31</u> <u>2021</u>
	unaudited	unaudited	unaudited	unaudited
Revenue	469,276	167,286	359,110	128,616
Cost of sales	347,914	124,032	273,104	99,282
Gross profit	121,362	43,254	86,006	29,334
Other income	1,690	997	2,333	412
Selling expenses	38,206	13,670	31,917	11,332
Administrative expenses	28,325	10,257	22,067	7,647
Other expenses	1,256	441	1,312	581
(Expected credit loss)/reversal of expected credit loss	(325)	32	190	19
Operating profit	54,940	19,915	33,233	10,205
Finance income	1,618	363	875	125
Finance costs	7,562	2,340	2,436	435
Profit/(loss) of equity-accounted investees	(1,519)	(485)	(240)	(240)
Profit before tax	47,477	17,453	31,432	9,655
Income tax	10,650	3,838	6,332	2,359
Net profit	36,827	13,615	25,100	7,296
<i>Attributable to:</i>				
<i>owners of the Parent</i>	32,480	11,586	23,050	6,621
<i>non-controlling interests</i>	4,347	2,029	2,050	675
	36,827	13,615	25,100	7,296
Other comprehensive income				
Exchange differences from translation of foreign operations	(2,653)	(10,010)	1,895	(1,167)
Total comprehensive income	34,174	3,605	26,995	6,129
<i>Attributable to:</i>				
<i>owners of the Parent</i>	29,800	5,390	24,639	5,605
<i>non-controlling interests</i>	4,374	(1,785)	2,356	524
	34,174	3,605	26,995	6,129
Earnings/(loss) per share:				
Basic	2.37	0.87	1.61	0.47
Diluted	2.37	0.87	1.61	0.47

Interim consolidated statement of financial position

Assets

	End of period Dec 31 2022	End of period Mar 31 2022
	unaudited	
Non-current assets		
Goodwill	51,439	51,566
Other intangible assets	27,593	27,280
Property, plant and equipment	62,460	57,857
Right-of-use assets	38,404	42,678
Deferred tax assets	3,937	5,090
Other financial assets	3,692	2,243
Equity-accounted investees	875	2,394
Long-term security deposits receivable	9,400	9,153
Other non-current assets	273	203
	198,073	198,464
Current assets		
Inventories	75,376	70,590
Financial assets	-	2
Trade and other receivables	114,313	111,766
Contract receivables	24,713	21,214
Short-term security deposits receivable	4,872	4,859
Forward contracts	6	-
Current tax assets	408	1,104
Other current assets	5,797	2,775
Cash and cash equivalents	29,948	19,939
	255,433	232,249
Total assets	453,506	430,713

Equity and liabilities

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
	unaudited	
Equity		
Share capital	3,915	3,915
Share premium	106,202	106,202
Share buyback reserve	7,245	7,245
Merger reserve	857	857
Translation reserve	1,961	4,641
Treasury shares	(1,124)	(922)
Retained earnings	85,353	62,738
Equity attributable to owners of the Parent	204,409	184,676
Non-controlling interests	11,050	7,021
Total equity	215,459	191,697
Non-current liabilities		
Long-term borrowings	70,472	76,150
Deferred tax liability	11	-
Provisions for liabilities	555	555
Deferred income	3,481	3,953
Right-of-use liabilities	16,612	16,870
	91,131	97,528
Current liabilities		
Short-term borrowings	12,267	13,453
Trade and other payables	116,506	98,479
Contract liabilities	3,830	12,970
Income tax payable	2,386	1,570
Forward contracts	8	156
Provisions for liabilities	3,460	3,504
Deferred income	1,360	1,240
Right-of-use liabilities	7,099	10,116
	146,916	141,488
Total equity and liabilities	453,506	430,713

Interim condensed consolidated statement of changes in equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Share buyback reserve</u>	<u>Merger reserve</u>	<u>Translation reserve</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Equity attributable to owners of the Parent</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
As at Apr 1 2021	3,915	106,202	23,500	857	5,222	(543)	25,587	164,740	6,603	171,343
Net profit/(loss) for period	-	-	-	-	-	-	23,050	23,050	2,050	25,100
Other comprehensive income	-	-	-	-	1,589	-	-	1,589	306	1,895
Comprehensive income for period	-	-	-	-	1,589	-	23,050	24,639	2,356	26,995
Dividend payment	-	-	-	-	-	-	(8,893)	(8,893)	(1,428)	(10,321)
Utilisation of capital reserve (buyback of shares)	-	-	(16,255)	-	-	-	16,255	-	-	-
Buyback of shares	-	-	-	-	-	(148)	-	(148)	-	(148)
Transactions with owners recognised in equity	-	-	(16,255)	-	-	(148)	7,362	(9,041)	(1,428)	(10,469)
As at Dec 31 2021	3,915	106,202	7,245	857	6,811	(691)	55,999	180,338	7,531	187,869
As at Apr 1 2022	3,915	106,202	7,245	857	4,641	(922)	62,738	184,676	7,021	191,697
Net profit/(loss) for period	-	-	-	-	-	-	32,480	32,480	4,347	36,827
Other comprehensive income	-	-	-	-	(2,680)	-	-	(2,680)	27	(2,653)
Comprehensive income for period	-	-	-	-	(2,680)	-	32,480	29,800	4,374	34,174
Dividend payment	-	-	-	-	-	-	(9,865)	(9,865)	(345)	(10,210)
Utilisation of capital reserve (buyback of shares)	-	-	-	-	-	-	-	-	-	-
Buyback of shares	-	-	-	-	-	(202)	-	(202)	-	(202)
Transactions with owners recognised in equity	-	-	-	-	-	(202)	(9,865)	(10,067)	-	(10,412)
As at Dec 31 2022	3,915	106,202	7,245	857	1,961	(1,124)	85,353	204,409	11,050	215,459

Interim condensed consolidated statement of cash flows

	Apr 1–Dec 31 2022	Apr 1–Dec 31 2021
	unaudited	unaudited
Operating activities		
Profit (loss) before tax	47,477	31,432
Adjustments for:		
Depreciation and amortisation	13,602	10,782
Interest accrued	5,605	1,736
(Gains)/losses on investing activities	944	(87)
Change in inventories	(4,786)	(23,635)
Change in receivables	(2,813)	(25,667)
Change in liabilities and provisions	4,288	15,153
Change in other assets	(2,906)	749
Other adjustments (exchange differences on consolidation)	(2,653)	1,895
Total adjustments	11,281	(19,074)
Income tax paid	(7,974)	(5,782)
Net cash provided by (used in) operating activities	50,784	6,576
Investing activities		
Purchase of property, plant and equipment	(9,637)	(14,189)
Purchase of financial assets	-	(3,100)
Loans to equity-accounted investees	(1,506)	(2,100)
Grants for development projects	556	510
Net cash provided by (used in) investing activities	(10,587)	(18,879)
Financing activities		
Increase in (repayment of) borrowings	(6,864)	31,821
Buyback of shares	(202)	(148)
Increase in (repayment of) right-of-use liabilities	(7,307)	(5,660)
Dividend paid	(10,210)	(10,321)
Interest paid	(5,605)	(1,736)
Net cash provided by (used in) financing activities	(30,188)	13,956
Change in cash	10,009	1,653
Cash at beginning of period	19,939	24,228
Cash at end of period	29,948	25,881

Interim condensed separate statement of comprehensive income

	<u>Apr 1–Dec 31</u> 2022	<u>Oct 1–Dec 31</u> 2022	<u>Apr 1–Dec 31</u> 2021	<u>Oct 1–Dec 31</u> 2021
	unaudited	unaudited	unaudited	unaudited
Revenue	263,907	91,853	212,774	74,822
Cost of sales	207,990	72,992	169,867	61,372
Gross profit	55,917	18,861	42,907	13,450
Other income	1,114	669	813	52
Selling expenses	20,001	7,334	15,824	5,381
Administrative expenses	12,670	4,968	10,168	3,385
Other expenses	193	37	232	195
(Expected credit loss)/reversal of expected credit loss	(1,936)	147	163	(4)
Operating profit	22,231	7,338	17,659	4,537
Finance income	2,761	1,038	8,509	1,836
Finance costs	6,021	1,498	1,678	459
Profit before tax	18,971	6,878	24,490	5,914
Income tax	4,014	1,618	3,240	1,049
Net profit	14,957	5,260	21,250	4,865
Other comprehensive income	-	-	-	-
Net comprehensive income	14,957	5,260	21,250	4,865
Earnings per share:				
Basic	0.96	0.34	1.36	0.31
Diluted	0.96	0.34	1.36	0.31

Interim condensed separate statement of financial position

Assets

	End of period Dec 31 2022	End of period Mar 31 2022
	Unaudited	
Non-current assets		
Intangible assets	13,344	13,773
Property, plant and equipment	43,939	43,691
Right-of-use assets	26,320	28,556
Other financial assets	101,750	97,871
Deferred tax assets	2,479	2,009
Long-term security deposits receivable	2,766	3,460
Other non-current assets	106	193
	190,704	189,553
Current assets		
Inventories	41,303	39,068
Financial assets	-	-
Trade and other receivables	64,464	67,537
Contract assets	14,897	12,216
Short-term security deposits receivable	3,052	3,046
Forward contracts	6	-
Other current assets	783	1,714
Cash and cash equivalents	678	1,389
	125,183	124,970
Total assets	315,887	314,523

Equity and liabilities

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
	unaudited	
Equity		
Share capital	3,915	3,915
Share premium	106,202	106,202
Capital reserves	8,102	8,102
Treasury shares	(1,124)	(922)
Retained earnings	33,474	28,382
Total equity	150,569	145,679
Non-current liabilities		
Long-term borrowings	72,655	77,290
Deferred tax liability	-	-
Provisions for liabilities	555	555
Deferred income	3,279	3,729
Lease liabilities	6,815	5,290
	83,304	86,864
Current liabilities		
Short-term borrowings	4,312	4,465
Trade and other payables	64,942	62,599
Contract liabilities	3,830	2,861
Corporate income tax payable	1,140	1,422
Provisions for liabilities	2,862	2,862
Forward contracts	8	156
Deferred income	1,360	1,240
Lease liabilities	3,560	6,375
	82,014	81,980
Total equity and liabilities	315,887	314,523

Interim condensed separate statement of changes in equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserves</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at Apr 1 2021	3,915	106,202	24,357	(543)	(3,555)	130,376
Net profit/(loss) for period	-	-	-	-	21,250	21,250
Comprehensive income for period	-	-	-	-	21,250	21,250
Dividend paid	-	-	-	-	(8,893)	(8,893)
Utilisation of capital reserve (buyback of shares)	-	-	(16,255)	-	16,255	-
Buyback of shares	-	-	-	(148)	-	(148)
Transactions with owners recognised in equity	-	-	(16,255)	(148)	7,362	(9,041)
As at Dec 31 2021	3,915	106,202	8,102	(691)	25,057	142,585
As at Apr 1 2022	3,915	106,202	8,102	(922)	28,382	145,679
Net profit/(loss) for period	-	-	-	-	14,957	14,957
Comprehensive income for period	-	-	-	-	14,957	14,957
Dividend paid	-	-	-	-	(9,865)	(9,865)
Buyback of shares	-	-	-	(202)	-	(202)
Transactions with owners recognised in equity	-	-	-	(202)	-	(10,067)
As at Dec 31 2022	3,915	106,202	8,102	(1,124)	33,474	150,569

Interim condensed separate statement of cash flows

	Apr 1–Dec 31 2022	Apr 1–Dec 31 2021
	unaudited	unaudited
<i>Operating activities</i>		
Profit (loss) before tax	18,971	24,490
Adjustments for:		
Depreciation and amortisation	8,048	6,272
Interest	4,753	1,046
Dividends received	(757)	(6,819)
(Gains)/losses on investing activities	(376)	(1,106)
Change in inventories	(2,235)	(14,259)
Change in receivables	3,755	(27,331)
Change in liabilities and provisions	1,624	10,662
Change in other assets	(906)	1,074
<i>Total adjustments</i>	13,906	(30,461)
Income tax paid	(4,766)	(3,520)
Net cash provided by (used in) operating activities	28,111	(9,491)
<i>Investing activities</i>		
Purchase of property, plant and equipment	(3,494)	(6,696)
Purchase of financial assets	-	(3,100)
Loans	(3,667)	(5,066)
Proceeds from disposal of property, plant and equipment	61	327
Proceeds from disposal of financial assets	-	900
Dividends received	757	6,819
Grants for development projects	556	510
Net cash provided by (used in) investing activities	(5,787)	(6,306)
<i>Financing activities</i>		
Increase in/(repayment) of borrowings	(4,788)	30,623
Payment of right-of-use liabilities	(3,427)	(3,810)
Buyback of shares	(202)	(148)
Dividends paid	(9,865)	(8,893)
Interest paid	(4,753)	(1,046)
Net cash provided by (used in) financing activities	(23,035)	16,726
Change in cash	(711)	929
Cash at beginning of period	1,389	955
Cash at end of period	678	1,884

Notes to the financial statements

General information about the Company and the Group

MERCOR S.A. (the Company, the Parent, MERCOR) has traded as a joint-stock company since September 21st 2004. Prior to that date, the Company traded as a limited liability company under the name of Przedsiębiorstwo Usługowo-Handlowe MERCOR sp. z o.o. MERCOR S.A. is the Parent of the MERCOR Group.

The Company's registered office is located in Gdańsk at 80-408 Gdańsk, ul. Grzegorz from Sanoka 2. The Company operates from its registered office as well as through trade offices and production establishments, none of which prepares a separate set of accounts. The Company is registered with the District Court of Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register. MERCOR S.A. is registered under entry No. KRS 0000217729.

The principal business of the Company and the Group consists in the manufacture, sale, installation and maintenance of passive fire protection systems. The Group's product offering includes:

- ✓ smoke and heat exhaust systems, rooflight systems,
- ✓ fire ventilation systems,
- ✓ fire protections of building structures,
- ✓ fire partitions, fire-rated doors and gates.

MERCOR S.A. and companies of the MERCOR Group manufacture, deliver and install equipment components for fire protection systems. They also provide maintenance services to guarantee reliable long-term operation of such systems. In addition, the Company offers product advisory services and comprehensive assistance in designing tailor-made fire safety solutions, including CFD simulations, CAD and BIM materials. MERCOR employees participate in various industry events to share their considerable knowledge and experience in the fire protection of building structures.

The Group's objective is to provide safety. The primary role of fire protection is to facilitate the evacuation of people in the event of a fire, enable the efficient operation of emergency response teams, reduce the damaging effects of high temperatures on the building, and safeguard property.

The Group's products are primarily manufactured to order based on a client's desired product features while adhering to safety standards and relevant regulatory requirements.

Management and supervisory bodies

Composition of the governing bodies of MERCOR S.A. as at December 31st 2022.

Management Board:

Krzysztof Krempeć	–	President of the Management Board
Jakub Lipiński	–	First Vice President of the Management Board
Tomasz Kamiński	–	Member of the Management Board.

Supervisory Board:

Lucjan Myrda	–	Chairman of the Supervisory Board
Arkadiusz Kęsicki	–	Deputy Chairman of the Supervisory Board
Tomasz Rutowski	–	Secretary of the Supervisory Board
Eryk Karski	–	Member of the Supervisory Board
Marian Popinigis	–	Member of the Supervisory Board
Pathy Timu Zenzo	–	Member of the Supervisory Board
Błażej Żmijewski	–	Member of the Supervisory Board.

There were no changes in the composition of the Management Board and the Supervisory Board of "MERCOR" S.A. during the reporting period.

Subsidiaries

As at December 31st 2022, the following entities were consolidated:

- ✓ Tecresa Protección Pasiva S. L. of Madrid (Spain)
- ✓ Mercor Dunamenti Tűzvédelem Zrt of Göd (Hungary)
- ✓ Dunamenti CZ s.r.o. of Prague (Czech Republic) (subsidiary of Dunamenti Tűzvédelem Zrt)
- ✓ Dunamenti s.r.o. of Kolárovo (Slovakia) (subsidiary of Dunamenti Tűzvédelem Zrt)
- ✓ OOO Mercor-PROOF of Moscow (Russia)
- ✓ MKRP Systems Unitary Production Enterprise of Minsk (Belarus) (subsidiary of OOO Mercor-PROOF)
- ✓ TOO MKR – Astana of Almaty (Kazakhstan) (subsidiary of OOO Mercor- PROOF)
- ✓ Mercor Czech Republic s.r.o. of Ostrava (Czech Republic)
- ✓ Mercor Slovakia s.r.o. of Bratislava (Slovakia)
- ✓ Mercor Fire Protection Systems S. R. L. of Bucharest (Romania)
- ✓ TOB Mercor Ukraine sp. z o.o. of Drohovyzh (Ukraine)
- ✓ DFM DOORS sp. z o.o. of Gdańsk (Poland)
- ✓ MERCOR FIRE PROTECTION UK LTD of Salford (England)
- ✓ MCR SOL ENERGY sp. z o.o. of Gdańsk (Poland)
- ✓ Elmech-ASE S.A. of Pruszcz Gdański (Poland)
- ✓ MERCOR Centrum Usług Wspólnych sp. z o.o.
- ✓ MCR Tech Lab sp. z o.o.
- ✓ MERCOR SILBOARD spółka z o.o. of Gdańsk (Poland)
- ✓ MHD1 sp. z o.o. of Gdańsk (Poland)
- ✓ MERCOR HD sp. z o.o. of Gdańsk (Poland)

On January 26th 2023, the General Meeting of "MERCOR" S.A. approved the separation and transfer by the Issuer to a separate entity of a shared services center, an organized part of the business. The transfer will be effected by way of in-kind contribution of the spun-off part of business to MERCOR Centrum Usług

Wspólnych sp. z o.o. The consolidation of common functions into one company will enable greater operational and financial efficiency of the Group in terms of administrative support.

On February 22nd 2023, the registration of the change in the legal form of the subsidiary Elmech ASE was completed. The conversion from a limited liability company to a joint-stock company is linked to the implementation of the Company's growth strategy, in line with the goals established by the owners.

Shareholding structure

Shareholders holding 5% or more of total voting rights in the Company

Shareholder	As at the date of issue of this report				Change relative to data disclosed in the most recent periodic report			
	Number of shares	% ownership interest	Number of voting rights	% voting interest	Number of shares	% ownership interest	Number of voting rights	% voting interest
PERMAG sp. z o.o.	4,102,994 ⁽¹⁾	26.20%	4,102,994 ⁽¹⁾	26.20%	-	-	-	-
Bangtino Limited	3,925,502 ⁽²⁾	25.07%	3,925,502 ⁽²⁾	25.07%	-	-	-	-
Nationale Nederlanden Powszechno Towarzystwo Emerytalne	1,454,465 ⁽³⁾	9.29%	1,454,465 ⁽³⁾	9.29%	+ 465	-	+465	-
Otwarty Fundusz Emerytalny PZU Złota Jesień	1,452,947 ⁽⁴⁾	9.28%	1,452,947 ⁽⁴⁾	9.28%	-	-	-	-
N50 Cyprus Limited	1,000,853 ⁽⁵⁾	6.39%	1,000,853 ⁽⁵⁾	6.39%	-	-	-	-
PTE Allianz Polska S.A.	791,018 ⁽⁶⁾	5.05%	791,018 ⁽⁶⁾	5.05%	-	-	-	-

⁽¹⁾ as per notification submitted for the Extraordinary General Meeting convened for January 26th 2023

⁽²⁾ as per notification submitted for the Extraordinary General Meeting convened for January 26th 2023

⁽³⁾ as per notification submitted for the Extraordinary General Meeting convened for January 26th 2023

⁽⁴⁾ as per notification submitted for the Extraordinary General Meeting convened for January 26th 2023

⁽⁵⁾ as per notification submitted for the Extraordinary General Meeting convened for January 26th 2023

⁽⁶⁾ as per notification submitted for the Extraordinary General Meeting convened for January 26th 2023

MERCOR S.A. shares held by Management and Supervisory Board members as at the date of issue of this report

Management Board:

	Number of shares held directly at the date of issue of this report	Change since issue of the most recent periodic report
Krzysztof Krempeć	15,608	-

Supervisory Board

To the best of the Company's knowledge, none of the Supervisory Board members held directly any shares in MERCOR S.A. as at the date of this report.

Indirect holdings of Company shares by Management and Supervisory Board members

Shareholder	Member of the Supervisory Board, Member of the Management Board: holding Company shares indirectly – through a Shareholder / related parties	Number of shares held by the Shareholder in the Company's share capital as at the date of issue of this report
PERMAG sp. z o.o.	Krzysztof Krempeć	4,102,994
N50 Cyprus Limited	Marian Popinigis	1,000,853
Value Fund Poland Activist FIZ	Eryk Karski	530,092

Treasury shares

Pursuant to a resolution of the Extraordinary General Meeting of June 30th 2020, in August 2020 the Company launched a share buyback programme. By December 31st 2022, a total of 91,859 shares were bought back for a total price of PLN 1,121,096.14. Treasury shares held by the Company as at December 31st 2022 represented 0.58728% of the Company's share capital. The share buyback programme is being carried out within the limit of capital reserve created for that purpose from retained earnings.

On January 26th, 2023, the Extraordinary General Meeting passed a resolution to cancel 89,258 Company shares, representing 0.57% of the Company's share capital, which had been acquired by the Company through the buyback of its own shares.

Policies applied in the preparation of the financial statements

In the preparation of these condensed consolidated financial statements, the same accounting policies and calculation methods were used as those applied by the Group in the preparation of its most recent full-year consolidated financial statements.

These condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments measured at fair value.

Financial data contained in these condensed consolidated financial statements is presented in thousands of Polish złoty (PLN '000), unless more accurate data is provided in specific cases.

The functional currency is the same as the local currency of the country in which a given Group entity is located. Currently, the Group companies operate in Poland, the Czech Republic, Slovakia, Spain, Ukraine, Romania, the Russian Federation, Hungary and the United Kingdom. The functional currency and the presentation currency of the Parent is the Polish złoty (PLN).

These condensed consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for the foreseeable future. As at the date of the condensed consolidated financial statements, there are no circumstances indicating any threat to the Group continuing as a going concern.

These interim condensed consolidated financial statements of the MERCOR Group covering the period ended December 31st 2022 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as endorsed by the European Union.

These interim condensed consolidated financial statements cover the nine months ended December 31st 2022 and contain comparative data for the nine months ended December 31st 2021 with respect to the statement of comprehensive income, statement of changes in equity and statement of cash flows, and comparative data as at March 31st 2022 with respect to the statement of financial position.

These interim condensed consolidated financial statements do not include all the information and disclosures required by IFRS in full-year financial statements and should be read in conjunction with the Group's consolidated financial statements for the financial year ended March 31st 2022.

Seasonality or cyclicity of the Group's operations

The Group's operations are not highly cyclical or seasonal. Previous years' performance data suggest that the first half of the calendar year tends to have slower sales and earnings than the latter half.

Segment information

Based on similar economic characteristics, such as the nature of products and services, production processes, type and class of customers, distribution methods, and regulatory environment, the Group's operations have been aggregated and presented in the financial statements as a single operating segment.

Revenue

	<u>Apr 1–Dec 31</u> <u>2022</u>	<u>Oct 1–Dec 31</u> <u>2022</u>	<u>Apr 1–Dec 31</u> <u>2021</u>	<u>Oct 1–Dec 31</u> <u>2021</u>
Revenue from sale of products	423,646	149,983	329,267	117,540
Revenue from sale of merchandise and materials	45,630	17,303	29,843	11,076
Total revenue	469,276	167,286	359,110	128,616

Revenue by geographical markets

	<u>Apr 1–Dec 31</u> <u>2022</u>	<u>Oct 1–Dec 31</u> <u>2022</u>	<u>Apr 1–Dec 31</u> <u>2021</u>	<u>Oct 1–Dec 31</u> <u>2021</u>
Poland	235,313	78,515	179,759	64,222
Czech Republic and Slovakia	31,937	8,938	27,915	9,549
Spain	35,243	12,957	35,543	15,202
Ukraine	6,131	3,146	8,322	3,233
Romania	7,008	2,648	8,873	2,117
Russia	47,442	17,953	37,187	12,708
Hungary	37,741	13,761	26,470	10,127
UK	5,206	1,595	3,577	1,525
Other	63,255	27,773	31,464	9,933
Total revenue	469,276	167,286	359,110	128,616

Operating expenses

	<u>Apr 1–Dec 31</u> <u>2022</u>	<u>Oct 1–Dec 31</u> <u>2022</u>	<u>Apr 1–Dec 31</u> <u>2021</u>	<u>Oct 1–Dec 31</u> <u>2021</u>
Cost of sales	347,914	124,032	273,104	99,282
Selling expenses	38,206	13,670	31,917	11,332
Administrative expenses	28,325	10,257	22,067	7,647
Total operating expenses	414,445	147,959	327,088	118,261
Depreciation and amortisation	13,602	4,725	10,782	3,815
Raw materials and consumables used	216,228	71,635	169,693	56,684
Change in inventories of finished goods	(2,930)	2,457	(5,701)	(2,346)
Services	76,112	30,743	66,794	28,554
Salaries and wages	59,059	20,703	48,581	16,730
Employee benefits	11,341	3,479	9,683	3,169
Taxes and charges	4,258	1,561	3,712	1,327
Other	4,283	1,844	2,604	1,347
Cost of merchandise and materials sold	32,492	10,812	20,940	8,981
Total expenses by nature	414,445	147,959	327,088	118,261

Other income

Other income				
	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>
	<u>2022</u>	<u>2022</u>	<u>2021</u>	<u>2021</u>
Gain on disposal of property, plant and equipment	575	158	327	-
Reimbursement of court costs	61	61	172	124
Compensation and penalties received	64	2	331	35
Grants for development projects	449	449	303	1
Other	541	327	1,200	252
Total	1,690	997	2,333	412

Other expenses

Other expenses				
	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>
	<u>2022</u>	<u>2022</u>	<u>2021</u>	<u>2021</u>
Compensation and penalties	19	4	101	31
Litigation costs	133	18	6	-
Bad debts written off	-	-	507	90
Provisions for warranty repairs	-	-	-	-
Other	1,104	419	698	460
Total	1,256	441	1,312	581

Finance income and costs

Finance income

Finance income				
	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>
	<u>2022</u>	<u>2022</u>	<u>2021</u>	<u>2021</u>
Interest on cash and bank deposits	404	165	43	20
Interest on receivables	21	-	523	259
Foreign exchange gains	659	(155)	190	(228)
Other income	210	29	119	74
Total	1,294	39	875	125

Finance costs

Finance costs				
	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>	<u>Apr 1–Dec 31</u>	<u>Oct 1–Dec 31</u>
	<u>2022</u>	<u>2022</u>	<u>2021</u>	<u>2021</u>
Interest and commissions on bank borrowings	4,939	1,652	1,352	597
Interest on leases	1,074	236	874	211
Interest on liabilities	23	4	22	12
Foreign exchange losses	645	92	188	(385)
Other	557	32	-	-
Total	7,238	2,016	2,436	435

Income tax

The effective tax rate for the Group was 22.43%, over 3pp higher than the nominal tax rate for the Parent. This was mainly attributable to different tax rates applicable in various tax jurisdictions in which MERCOR Group companies are located and to permanent differences between profit/(loss) before tax and taxable income.

Tax audit for the financial year April 1st 2012–March 31st 2013

The Head of the Gdańsk Province Tax Office in Gdańsk carried out an audit regarding the tax loss reported by the Parent for the 2012/2013 tax year in relation to latter's claim for a refund of PLN 5,138 thousand for overpaid income tax for that period. In July 2014, the Parent received a report summarising the audit findings, whereby the Head of the Gdańsk Province Tax Office questioned the loss reported on the tax return and the claimed tax overpayment. The Management Board of the Parent objected to the report, disputing the audit findings and maintaining its stance on the amount of tax loss incurred from the sale of shares in BEM sp. z o.o. (PLN 76,139,865.64) as well as its claim for a full refund of the overpaid taxes. In the audit report delivered to the Parent in July 2014, the Head of the Gdańsk Province Tax Office challenged the reported loss citing the tax avoidance clause, which was not yet in effect in Poland at the time of the transaction. In January 2015, the Parent underwent a tax audit to verify the accuracy of corporate income tax returns for the tax year 2012/2013. In the audit report, to which the Parent objected, the tax authority once more contested the tax loss disclosed in the tax return and the overpayment of corporate income tax claimed for the tax year 2012/2013. In its response, the Parent maintained its objection to the findings of the Head of the Gdańsk Province Tax Office and upheld the position of the Management Board of MERCOR S.A. regarding the legitimacy of the reported tax loss and tax overpayment.

In June 2015, the Parent was informed of decisions issued by the Head of the Gdańsk Province Tax Office to commence an investigation into the accuracy of the corporate income tax settlements for the tax year beginning April 1st 2012 and ending March 31st 2013, and to assess default interest on unpaid corporate income tax advances for the same tax year.

The tax investigation was concluded in September 2015 with decisions issued by the Head of the Gdańsk Province Tax Office assessing the Parent's income tax liability for 2012/2013 at PLN 5,375,791 and default interest on unpaid corporate income tax advances at PLN 6,272. The Head of the Gdańsk Province Tax Office cited legal basis to support their decision that the sale of shares was an artificial transaction.

The Parent maintained its stance that the conclusions reached by the Head of the Gdańsk Province Tax Office were incorrect, filing an appeal against the decisions issued by the first instance authority with the Tax Chamber in Gdańsk.

In July 2016, the Parent received decisions from the Director of the Tax Chamber in Gdańsk affirming the prior rulings of the Head of the Gdańsk Province Tax Office which had assessed the corporate income tax liability and any unpaid income tax advances with the addition of default interest. However, the decisions issued by the Director of the Tax Chamber in Gdańsk cited the transfer pricing regulations as the legal basis for determining the amount of income on the sale of shares at PLN 0.00, rather than the previously cited artificiality of the transaction. In August 2016, the Parent filed complaints with the Provincial Administrative Court in Gdańsk challenging the decisions of the Director of the Tax Chamber. The hearings before the Provincial Court of Appeals in Gdańsk were held on December 20th 2016, resulting in the dismissal of the Parent's complaints. Nevertheless, the Parent maintained its position that the findings and decisions of both the Head of the Gdańsk Province Tax Office and the Director of the Tax Chamber in Gdańsk were incorrect, and thus, it filed cassation complaints with the Supreme Administrative Court in Warsaw.

After reviewing the appeals filed by the Parents against the decisions of the Provincial Administrative Court in Gdańsk, the Supreme Administrative Court issued judgments on April 1st 2019, annulling the decisions of the Provincial Administrative Court and the decisions of the Director of the Tax Administration Chamber (formerly Director of the Tax Chamber) in Gdańsk. In July 2019, the Parent received written statements of reasons for the judgments issued by the Supreme Administrative Court. By a decision of the Director of the Tax Administration Chamber in Gdańsk dated October 31st 2019, decisions of the first instance authority were vacated and the case was remanded for re-examination by the Head of the Gdańsk Province Tax Office.

The Parent obtained a private letter ruling, issued in accordance with Article 14b of the Tax Code, which confirmed that the share sale transaction had been reported accurately, thereby validating the Parent's claim for the overpaid tax amount and the tax loss reported.

On April 21st 2021, two decisions were issued by the Head of the Gdańsk Province Tax Office. With respect to the tax investigation concerning corporate income tax, the Head of the Gdańsk Province Tax Office assessed the Parent's liability on account of corporate income tax for the tax year April 1st 2012–March 31st 2013 at PLN 5,375,791.00. The legal basis for the decision cited by the Head of the Gdańsk Province Tax Office was Art. 11.1 of the Corporate Income Tax Act, i.e. the provision related to transfer pricing which stipulates that if, as a result of relations between entities, conditions are agreed or imposed that substantially differ from those which would have been agreed between independent entities and, as a result, an entity does not disclose any income or discloses income lower than could be expected if such relations did not exist – the income of such entity and the tax due are assessed without taking into account the conditions resulting from such relations. The Head of the Gdańsk Province Tax Office is of the opinion that the tax authorities have the right to apply the principles of 'non-recognition' or 'recharacterisation' also in tax investigations concerning corporate income tax settlements for the years preceding 2019 (the transfer pricing regulations have been amended as of January 1st 2019), referring to the grounds for the act amending the Corporate Income Tax Act as of January 1st 2019, which state that *'the existing right of the tax authority to take into account the whole range of conditions under which related entities conduct their business activity by considering that under certain conditions a given transaction would not be concluded (non-recognition) or would be concluded differently (recharacterisation), derived from the wording of Art. 11.1 of the CIT Act and Art. 25.1 of the PIT Act, has been clarified in the introduced regulations'*.

The second decision of the Head of the Gdańsk Province Tax Office concerned default interest on unpaid corporate income tax advances for the tax year April 1st 2012–March 31st 2013. In that decision, the Head of the Gdańsk Province Tax Office assessed default interest on unpaid corporate income tax advances for March 2013 at PLN 5,508.00, and discontinued proceedings to assess default interest on unpaid corporate income tax advances for September and November 2012 due to the expiration of the statute of limitations for that liability.

Disagreeing with the findings made by the Head of the Gdańsk Province Tax Office, in May 2021 the Parent filed appeals against the above decisions with the Director of the Tax Administration Chamber in Gdańsk. In October 2021, the Parent filed a request with the Director of the Tax Administration Chamber in Gdańsk for an administrative hearing to be held in connection with the pending appeals. On February 28th, the Director of the Tax Administration Chamber in Gdańsk declined to hold the hearing requested by the Company, arguing that there was no need to further elaborate on the legal reasoning presented in the first instance authority's tax liability assessment decision, as it had provided a thorough justification of the regulations applied in the case. In March 2022, the Company presented its position regarding the evidence gathered by the Director of the Tax Administration Chamber in the course of the appeal proceedings, reiterating the absence of a legal basis for the decisions issued by the Head of the Gdańsk Province Tax Office, and requested that they be set aside, or failing that – that an administrative hearing be held to

examine the evidence gathered and to establish and clarify circumstances surrounding the adoption by the Head of the Gdańsk Province Tax Office of the legal bases cited in its decisions. However, the Company's request was not granted by the tax authority.

On August 17th 2022, the Company received a decision of the Director of the Tax Administration Chamber in Gdańsk dated August 1st 2022, which upheld the decision of the Head of the Gdańsk Province Tax Office, albeit the second instance authority cited as the legal basis the transfer pricing regulations (Art. 11.1 of the Corporate Income Tax Act) as in force during the period covered by the proceedings, determining the amount of income on the sale of shares at PLN 0.00, rather than their amended version, as did the Head of the Gdańsk Province Tax Office.

By a decision of the Director of the Tax Administration Chamber in Gdańsk dated August 1st 2022, the decision of the Head of the Gdańsk Province Tax Office concerning default interest on unpaid corporate income tax advances for March 2013 was also upheld.

The Company disagreed with the findings of the tax authority, and thus filed complaints against both decisions of the Director of the Tax Administration Chamber in Gdańsk with the Provincial Administrative Court in Gdańsk. The court has scheduled the hearings to consider the complaints for February 28th 2023.

In the opinion of the Management Board of the Parent, as at the date of these consolidated financial statements the risk that the contingent receivable related to corporate income tax refund (resulting from tax advances paid for the tax year 2012/2013) of PLN 5,433 thousand would not be recovered by the Company was not significant.

Deferred tax assets and liabilities

Deferred tax is recognised for temporary differences between taxable income and profit/(loss) before tax disclosed in the financial statements. As at December 31st 2022 and March 31st 2022, deferred income tax arose from the items presented in the table below.

	Statement of financial position		Statement of comprehensive income			
	End of period Dec 31 2022	End of period Mar 31 2022	Apr 1–Dec 31 2022	Oct 1–Dec 31 2022	Apr 1–Dec 31 2021	Oct 1–Dec 31 2021
Differences between tax base and carrying amount of property, plant and equipment and intangible assets	2,508	2,297	(211)	(111)	114	87
Revenue recognised over time	2,635	2,081	(554)	202	(1,160)	188
Unrealised exchange differences and measurement of forward contracts	110	-	(110)	(110)	(2)	(2)
Accrued interest	96	15	(81)	(32)	(5)	(5)
Deferred tax liability	5,349	4,393	(956)	(51)	(1,053)	268
Cost related to revenue recognised over time	1,021	1,380	(359)	(502)	254	(49)
Differences between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	62	68	(6)	62	7	40
Provisions for employee expenses and employee benefit obligations	3,563	2,983	580	644	763	302
Impairment losses on receivables	1,386	1,421	(35)	106	(63)	(50)
Write-downs of inventories	1,454	852	602	359	(190)	(35)
Unrealised exchange differences and measurement of forward contracts	2	30	(28)	(21)	(59)	1
Deferred income	136	219	(83)	(31)	(60)	-
Accrued interest	221	102	119	(8)	(6)	7
Tax loss asset	1,430	2,428	213	(239)	201	(405)
Deferred tax assets	9,275	9,483	1,003	370	847	(189)
<i>including:</i>						
<i>deferred tax assets</i>	<i>3,937</i>	<i>11</i>				
<i>deferred tax liability</i>	<i>-</i>	<i>-</i>				
Deferred tax expense			47	319	(206)	79

Intangible assets

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
Goodwill	51,439	51,566
Costs of completed development work	13,248	15,949
Capitalised costs of development work in progress	9,214	6,424
Concessions and licences	5,131	4,907
Total	79,032	78,846

Property, plant and equipment

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
Land	1,836	1,836
Buildings and structures	15,848	13,667
Machinery and equipment	33,978	15,792
Vehicles	2,001	1,830
Other property, plant and equipment	1,072	1,236
Property, plant and equipment	54,735	34,361
Property, plant and equipment under construction	6,943	23,041
Prepayments for property, plant and equipment	782	455
Total	62,460	57,857

Purchase and sale of material items property, plant and equipment

In the three months to December 31st 2022, the Company did not purchase or sell any material items of property, plant and equipment.

Borrowings

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
Borrowings from banks	82,671	89,155
Borrowings from financial institutions	68	448
Total	82,739	89,603
Non-current portion		
Borrowings from banks	70,404	76,082
Borrowings from financial institutions	68	68
Total	70,472	76,150
Current portion		
Borrowings from banks	12,267	13,073
Borrowings from financial institutions	-	380
Total	12,267	13,453
Borrowings maturing		
within 1 year	12,267	13,453
in 2 to 3 years	68,694	67,227
in 3 to 5 years	1,778	8,923
in over 5 years	-	-

Total **82,739** **89,603**
 Currency breakdown of the Group's bank borrowings (presented in PLN)

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
Borrowings in PLN	50,148	85,180
Borrowings in EUR	32,591	4,423
Total	82,739	89,603

Credit default or breach of material credit covenants with respect to which no remedial action was taken by the end of the reporting period

In the three months to December 31st 2022, there were no defaults or material breaches under borrowing agreements.

Amount and type of items that affect assets, liabilities, equity, net profit, or cash flows, which are atypical due to their nature, value, or frequency.

In the three months to December 31st 2022, there were no atypical items that would affect the Issuer's assets, liabilities, equity, net profit, or cash flows.

Write-downs

Inventories

As at December 31st 2022, write-downs of inventories to net realisable value were PLN 8,768 thousand. In the reporting period, the Parent reversed write-downs recognised in previous periods for an amount of PLN 48 thousand, while the amount of write-downs recognised in the period was PLN 1,287 thousand.

Inventories at end of reporting period:

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>
Materials	51,759	57,090
Work in progress and semi-finished goods	9,023	4,658
Finished goods	23,362	13,444
Write-downs	(8,768)	(4,602)
Total	75,376	70,590

Receivables

	<u>End of period</u> <u>Dec 31 2022</u>	<u>End of period</u> <u>Mar 31 2022</u>	<u>Change in</u> <u>period</u>
Impairment losses on receivables	8,083	8,157	(74)
Total	8,083	8,157	(74)

Recognition, increase, use and reversal of provisions

	<u>Provision for</u> <u>employee</u> <u>benefit</u> <u>obligations</u>	<u>Provision for</u> <u>warranty</u> <u>repairs</u>	<u>Provision for</u> <u>expected</u> <u>losses</u>
Provisions as at Mar 31 2022	566	3,493	-
Recognition of provisions charged to expenses	-	-	-
Use of provisions recognised in previous periods	-	-	-
Effect of exchange differences	-	(44)	-
Provisions as at Dec 31 2022	566	3,449	-

Changes in economic environment and trading conditions with a material effect on the fair value of financial assets and liabilities, irrespective of whether such assets and liabilities are carried at fair value or adjusted acquisition cost

There were no changes in the economic situation that could have a material effect on the fair value of financial assets and financial liabilities of the Company and its Group, whether measured at fair value or at amortised cost.

Financial instruments

In the three months to December 31st 2022, there were no changes in the method of measuring the fair value of financial instruments.

In the three months to December 31st 2022, there were no changes in the classification of financial assets resulting from a change in their purpose or use.

Contingent assets and liabilities

In the three months to December 31st 2022, there were no material changes in the Company's contingent assets or contingent liabilities.

Related party transactions

Neither the Company nor any its subsidiaries entered into any related party transactions otherwise than on an arm's length basis.

Sureties or guarantees issued by the Issuer or its subsidiary if the aggregate value of outstanding sureties or guarantees issued to a single entity or its subsidiary is material

The Issuer and its subsidiaries did not provide any sureties or guarantees of material value.

Issue, redemption, cancellation and repayment of non-equity and equity securities

There were no issues, redemptions cancellations or repayments of any debt or equity securities during the reporting period.

Factors and events (including of non-recurring nature) having a material bearing on the condensed financial statements

In the three months to December 31st 2022, there were no factors or events (including of non-recurring nature) which would have a material bearing on the condensed financial statements.

Events after the reporting date which are not disclosed in the report but could significantly affect the Issuer's and its Group's future financial results

After the reporting period, there were no non-recurring events that could potentially impact the Issuer's and its Group's future performance.

Dividend paid or declared

On October 31, 2022, the Company distributed a dividend of PLN 9,864,877.05, i.e. PLN 0.63 per share.

Management Board' position on the feasibility of published forecasts

No earnings guidance was published by the Company.

Material proceedings involving MERCOR S.A. or its subsidiaries

In the three months to December 31st 2022, there were no material proceedings pending against the Company or its subsidiaries.

Material settlements under court proceedings

In the reporting period, there were no material settlements under court proceedings.

Material achievements or failures and key events during the reporting period

In the three months to December 31st 2022, the Group earned revenue of PLN 167,286 thousand, a year-on-year increase of 30% from PLN 128,616 thousand. Sales on the Polish market grew by over 22%. Foreign subsidiaries reported sales growth of over 35% in Hungary, over 25% in Romania, and approximately 5% in the UK. Sales also expanded on the Russian market (by over 40%). Sales fell in Spain (approximately 15%), the Czech and Slovak markets (more than 6%) and Ukraine (approximately 3%).

In the three months to December 31st 2022, operating profit before depreciation and amortisation was PLN 24,640 thousand, a year-on-year increase of over 75% from PLN 14,020 thousand. Operating profit for the period was PLN 19,915 thousand, and increase of over PLN 95% year on year.

Net profit earned by the MERCOR Group in the three months to December 31st 2022 was PLN 13,615 thousand (three months to December 31st 2021: PLN 7,296 thousand).

Information material to the assessment of human resources, assets, financial condition and financial performance or any changes thereto, and the Company's ability to meet its obligations

There were no material changes to the Company's position in the period covered by these financial statements. The MERCOR Group has a stable workforce, uses its assets efficiently, and performs its obligations in a timely manner. There were no material changes to the financial position of the Group companies relative to disclosures made in the half-year report.

The term of the Company's overdraft agreement with Credit Agricole Bank Polska S.A. of Wrocław, was extended for another period. The facility amount is PLN 28,560,000.00. The agreement expires on October 31st 2024. On December 7th 2022, a credit line provided by mBank S.A. of Warsaw, was repaid, resulting in the expiry of the facility agreement between the parties. On November 28th 2022, MERCOR S.A. executed an overdraft facility agreement with Santander Bank Polska Spółka Akcyjna of Warsaw. Under the agreement, Santander Bank Polska provided a PLN 28,560,000.00 credit facility to finance

MERCOR S.A.'s day-to-day operations. The final repayment date for all amounts outstanding under the overdraft facility is November 28th 2024. The amount of the limit granted by BNP Paribas Bank Polska Spółka Akcyjna of Warsaw under the receivables limits agreement was increased to PLN 42,880,000.00. The agreement with BNP Paribas will expire on December 2nd 2024.

Impact of the war in Ukraine on the business

The Management Board of the Parent has analysed the impact of the war in Ukraine on its and its subsidiaries' business since the war broke out on February 24th 2022. The analysis covered market, financial, and operational aspects; existing and amended local and international laws and regulations; and the sanctions and other restrictions imposed on countries, entities, and individuals as a result of the conflict, with a particular emphasis on this latter factor.

The Management Board used its best knowledge and exercised due diligence in assessing the impact of the war on the business and results of operations of the Group and its companies. The following risk factors were identified in the process: potential changes in investor sentiment and investor preferences; rising prices and shortages of raw materials and energy; potential disruptions to the supply chain; fluctuations in interest rates and currency exchange rates; changes in the labour market; financial soundness of trading partners; cyber security, sanctions, and dividends. The Management Board of the Parent and the management bodies of the Group companies consider a non-exhaustive range of facts and circumstances when making decisions, in order to adjust business operations to the current situation and reduce or eliminate any adverse impacts of the risk factors they are monitoring.

The Parent and other Group companies secure supplies of strategic raw materials and respond to changes in their prices as needed. During the reporting period there were no significant business disruptions that would affect the supply of materials, equipment, components, or labour. As at the reporting date, there were no significant changes in the collectability of receivables.

In the opinion of the Management Board, no sanctions are likely to be imposed on the Group companies or their related parties. Having considered the reasons for the imposition of sanctions by various countries or organisations on entities or individuals as a result of the armed conflict in Ukraine, the Management Board is of the opinion that the ownership structure of the companies in the Group is secure in this respect. The Parent and the Group companies monitor the sanctions lists also in the context of any potential disruptions to the supply of products or services. As at the date of this report, the Parent was not materially affected by any sanctions.

In the countries involved in the war, the Company holds a 55% equity interest in the Ukrainian-based company TOB MERCOR UKRAINA sp. z o.o., and it holds, directly and indirectly (through a Group company) a total of 55% of the share capital of the Russian-based company OOO Mercor-PROOF LLC. The Company has retained control of these subsidiaries, and shareholders' rights are being exercised in accordance with applicable laws and the internal regulations of the companies in Ukraine and Russia.

As at the date of this report, TOB MERCOR UKRAINA conducted production and trading operations to the extent permitted by the available human resources. The company has its registered office in Lviv, a city in western Ukraine, with production operations conducted at a facility located even further west. Virtually no military operations are being conducted in these regions. The company does not generate losses, and none of its assets have been destroyed. The Ukrainian company does not use external financing and pays its liabilities from operating cash flows. To the best knowledge of the Management

Board of the Parent, there are no reasons to expect any material changes in the operations of MERCOR UKRAINA or any potential reduction in the scale of its operations despite the ongoing war. Most orders received by the company are from other Group companies, and the Management Board of the Parent monitors the level and profitability of the orders and capacity utilisation rates on an ongoing basis. Given the results of order and production analyses, location and no material exposure of the company to the Ukrainian market, the Management Board believes there is no indication of impairment of TOB MERCOR UKRAINA's assets. The total net asset value of the Ukrainian subsidiary disclosed in the financial statements is PLN 4,729 thousand, representing 1.0% of the assets disclosed in the consolidated financial statements. The value of shares in the Ukrainian company and receivables from the company is PLN 2,477 thousand, or 0.8% of the assets disclosed in the separate financial statements.

The Russian-based company is also conducting business operations, supplying products and services to the local market. However, no products or parts of products have been shipped by the Group companies to this or other Russian companies since the outbreak of the war. The method of operation of Mercor-PROOF, whereby it sources production materials locally, allows it to conduct independent financing and operating activities in the Russian market. The analysis of the Russian company's cash flow and liquidity forecasts for the next 12 months confirmed no material threat with respect to these metrics. The Parent is also monitoring the level and profitability of orders received by the company. Based on the analyses of the orders, future profitability and liquidity position, and given that Mercor-PROOF is an independent entity and has no intragroup transactions subject to international sanctions, the Management Board believes there is no indication of asset impairment.

Save for regulations introduced by the Russian government, the Management Board of the Parent identified no material changes to the manner or terms of payment of dividends to the Company, with all dividend payments from its subsidiaries to be made on the existing terms and conditions, subject to prior fulfilment of the criteria applying to the distribution of profit. The sole restriction in this regard applies to the payment of dividend from Mercor-PROOF, where amounts exceeding RUB 10 million (or PLN 618 thousand at the exchange rate effective for the reporting date) require approval of the Russian Ministry of Finance.

Given the present situation, the Management Board of the Parent believes it still has control of the Russian company as no grounds exist for it losing the voting rights attached to its shareholding. As regards exposure to variable returns, the Management Board believes that as at the reporting date and as at the date of these financial statements restrictions on the distribution of profits did not hinder the exercise of control of the subsidiary. The Management Board is monitoring the situation in Russia and any indications under IFRS 10 relating to the exercise of control of the subsidiary. The total net asset value of the Russian subsidiary disclosed in the financial statements is PLN 22,094 thousand, representing 4.9% of the assets disclosed in the consolidated financial statements. The value of shares in the Russian company and receivables from the company, before impairment losses, is PLN 2,600 thousand, or 0.8% of the assets disclosed in the separate financial statements. An impairment loss of PLN 1,730 thousand was recognised on receivables from the Russian company.

In view of the above and given the small contributions from the companies to consolidated revenue (Russian operations: 10.1% of the Group's revenue; Ukrainian operations: 1.3% of the Group's revenue), as at the date of these financial statements, the Management Board of the Parent identified no material impact of the war in Ukraine on the operations and results of the Group.

Based on the analyses performed, the Management Board of the Parent identified no threat to the Company's and other Group companies' ability to continue as going concerns as at the date of these financial statements and for the foreseeable future.

Factors that, in the opinion of the Company, will affect its results in the following quarter and beyond

Key factors affecting the Group's performance are factors relating to the macro environment:

- construction investment levels;
- availability and prices of materials;
- inflation rate;
- interest rates;
- availability of qualified workforce;
- liquidity position of trading partners.

MANAGEMENT BOARD OF MERCOR S.A.:

Krzysztof Krempeć

President of the Management Board

Jakub Lipiński

First Vice President of the Management Board

Tomasz Kamiński

Member of the Management Board

GDAŃSK, February 24th 2023