



MERCOR S.A.

Financial statements for
the period from April 1st
2022 to March 31st 2023

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

Gdańsk, June 30th 2023

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STATEMENT OF COMPREHENSIVE INCOME

	NOTE	Apr 1 2022 – Mar 31 2023 PLN thousand	Apr 1 2021 – Mar 31 2022 PLN thousand
Revenue	3	356,467	291,397
Cost of sales	4	284,428	234,978
Gross profit		72,039	56,419
Other income	5	1,940	1,805
Selling expenses	4	25,798	21,432
Administrative expenses	4	16,662	14,137
Other expenses	6	214	602
(Expected credit loss)/reversal of expected credit loss		(2,347)	27
Operating profit		28,958	22,080
Finance income	7	8,741	9,422
Finance costs	8	7,788	2,594
Impairment losses on equity interests		-	-
Profit before tax		29,911	28,908
Income tax	10	5,982	4,333
Net profit		23,929	24,575
Other comprehensive income		-	-
Total comprehensive income		23,929	24,575
Earnings per share:	11		
<i>From continuing operations:</i>			
Basic		1.54	1.58
Diluted		1.54	1.58

STATEMENT OF FINANCIAL POSITION

Assets

	NOTES	End of period Mar 31 2023 PLN thousand	End of period Mar 31 2022 PLN thousand
Non-current assets			
Intangible assets	12	13,456	13,773
Property, plant and equipment	13	62,430	43,691
Right-of-use assets		6,874	28,556
Other financial assets	14	102,618	97,871
Deferred tax assets	10	2,421	2,009
Long-term security deposits receivable	15	2,833	3,460
Other non-current assets		124	193
		190,756	189,553
Current assets			
Inventories	16	40,227	39,068
Financial assets		-	-
Trade and other receivables	17	64,175	67,537
Contract assets		14,289	12,216
Short-term security deposits receivable	15	2,501	3,046
Forward contracts		-	-
Other current assets	18	2,242	1,714
Cash and cash equivalents	19	126	1,389
		123,560	124,970
Total assets		314,316	314,523

STATEMENT OF FINANCIAL POSITION

Equity and liabilities

	<u>NOTES</u>	<u>End of period</u> <u>Mar 31 2023</u> PLN thousand	<u>End of period</u> <u>Mar 31 2022</u> PLN thousand
Equity			
Share capital	20	3,915	3,915
Share premium		106,202	106,202
Capital reserves	20	8,102	8,102
Treasury shares		(1,507)	(922)
Retained earnings	20	42,446	28,382
Total equity		<u>159,158</u>	<u>145,679</u>
Non-current liabilities			
Long-term borrowings	21	69,959	77,290
Deferred tax liability	10	-	-
Provisions for liabilities	22	555	555
Deferred income	24	3,261	3,729
Right-of-use liabilities	25	3,847	5,290
		<u>77,622</u>	<u>86,864</u>
Current liabilities			
Short-term borrowings	21	2,864	4,465
Trade and other payables	23	65,707	62,599
Contract liabilities		2,240	2,861
Income tax payable		1,029	1,422
Provisions for liabilities	22	3,231	2,862
Forward contracts		21	156
Deferred income	24	554	1,240
Right-of-use liabilities	25	1,890	6,375
		<u>77,536</u>	<u>81,980</u>
Total equity and liabilities		<u>314,316</u>	<u>314,523</u>

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>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at Apr 1 2021	3,915	106,202	24,357	(543)	(3,555)	130,376
Net profit/(loss) for period	-	-	-	-	24,575	24,575
Comprehensive income for reporting period	-	-	-	-	24,575	24,575
Dividend payment	-	-	-	-	(8,893)	(8,893)
Utilisation of capital reserve (buyback of shares)	-	-	(16,255)	-	16,255	-
Buyback of shares	-	-	-	(379)	-	(379)
Transactions with owners recognised in equity	-	-	(16,255)	(379)	7,362	(9,272)
As at Mar 31 2022	3,915	106,202	8,102	(922)	28,382	145,679
Net profit/(loss) for period	-	-	-	-	23,929	23,929
Comprehensive income for reporting period	-	-	-	-	23,929	23,929
Dividend payment	-	-	-	-	(9,865)	(9,865)
Buyback of shares	-	-	-	(585)	-	(585)
Transactions with owners recognised in equity	-	-	-	(585)	(9,865)	(10,450)
As at Mar 31 2023	3,915	106,202	8,102	(1,507)	42,446	159,158

STATEMENT OF CASH FLOWS

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Continuing operations		
Operating activities		
Profit (loss) before tax	29,911	28,908
Adjustments for:		
Depreciation and amortisation	10,847	8,132
Interest paid	6,107	1,970
Dividends received	(6,283)	(7,250)
(Gains)/losses on investing activities	(1,086)	(1,420)
Change in inventories	(1,159)	(17,122)
Change in receivables	4,534	(29,362)
Change in liabilities and provisions	1,438	19,297
Change in contract assets and liabilities	(2,694)	(7,161)
Change in other assets	(2,308)	(404)
Total adjustments	9,396	(33,320)
Income tax paid	(6,787)	(4,330)
	32,520	(8,742)
Investing activities		
Purchase of property, plant and equipment and intangible assets	(4,705)	(7,438)
Purchase of financial assets	-	(3,100)
Proceeds from sale of property, plant and equipment	1,280	641
Proceeds from sale of financial assets	-	900
Loans repaid (granted)	(2,898)	(5,066)
Grants received for development projects	556	687
Dividends received	6,283	7,250
	516	(6,126)
Financing activities		
Increase in (repayment of) borrowings	(8,932)	32,137
Repayment of lease instalments	(8,810)	(5,593)
Dividend paid	(9,865)	(8,893)
Buyback of shares	(585)	(379)
Interest paid	(6,107)	(1,970)
	(34,299)	15,302
Change in cash	(1,263)	434
Cash at beginning of period	1,389	955
Cash at end of period	126	1,389

NOTES

NOTE 1 – GENERAL INFORMATION

1. The Company

MERCOR S.A. 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. On September 21st 2004, the Company underwent a legal transformation, changing its form of incorporation from limited liability company to joint stock company.

The Company's registered office is located in Gdańsk at ul. Grzegorza z Sanoka 2, 80-408 Gdańsk. The Company conducts its operations at the principal place of business, as well as through trade offices and production establishments. None of these entities maintains 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 consists in the manufacture, sale, installation and maintenance of passive fire protection systems. The Company's offerings include the following product groups:

- smoke and heat exhaust systems, rooflight systems,
- fire ventilation systems,
- fire protections of building structures.

2. Management Board:

As at March 31st 2023 and as of the date of issue of these financial statements, the Management Board of the Company was composed of:

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

In the financial, there were changes in the composition of the Management Board.

3. Supervisory Board

As at March 31st 2023 and as of the date of issue of these financial statements, the Supervisory Board of the Company was composed of:

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.

In the financial, there were changes in the composition Supervisory Board.

Since July 19th 2007, the Company shares have been listed on the Warsaw Stock Exchange. The General Meeting of the Company passed a resolution, stating that from the financial year commencing on January 1st 2007, the Company prepares its financial statements in accordance with International Financial Reporting Standards.

These financial statements should be read in conjunction with the consolidated financial statements authorised for issue by the Management Board and published on the same day as these financial statements.

NOTE 2 – MATERIAL ACCOUNTING POLICIES

1. Basis of accounting

The financial year of MERCOR S.A. runs from April 1st to March 31st of the next year.

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

The functional and reporting currency of the Company is the Polish złoty (PLN).

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

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

2. Going concern assumption

These financial statements were prepared on the assumption that the Company would continue as a going concern for at least 12 months subsequent to the reporting date. As at the date of authorisation of these financial statements, the Management Board of the Company was aware of no facts or circumstances that would indicate a threat to the Company continuing as a going concern in the period of at least 12 months after the reporting date, as a result of an intended or forced discontinuation or material limitation/restriction of its existing business. In the assumptions underlying this assessment, the Company's Management Board also considered the potential impact of the war in Ukraine and the COVID-19 pandemic. The Company will continue to monitor the current situation and implement all necessary measures to mitigate any adverse effects as the situation develops.

3. The impact of the war in Ukraine on the Company's operations

The Management Board of the Company has analysed the impact of the war in Ukraine on its and its subsidiaries' business operations since the war broke out on February 24th 2022. This comprehensive analysis encompasses various dimensions, including market dynamics, financial considerations, operational aspects, existing and modified local and international laws and regulations, as well as the sanctions and other restrictions imposed on countries, entities, and individuals as a result of the conflict. Special attention is given to assessing the effects of the sanctions and restrictions on the Company's business.

The Management Board has 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 Company 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. After carefully evaluating the grounds for the imposition of sanctions by different countries or organizations on entities or individuals due to the armed conflict in Ukraine, the Management Board is confident in the stability and security of the ownership structure of the companies within the Group concerning these matters. 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 Company was not materially affected by any sanctions.

As regards 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 value of shares in the Ukrainian company and receivables from the company is PLN 2394 thousand, or 0.8% of the assets disclosed in the 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 has concluded that there are no significant concerns or risks pertaining to these financial metrics. The Parent is also monitoring the level and profitability of orders received by the company. Taking into account the analysis of the order book, projected profitability, and liquidity position, as well as the fact that Mercor-PROOF operates independently and does not engage in intragroup transactions subject to international sanctions, the Management Board is confident that there are no indications of asset impairment.

Save for regulations implemented by the Russian government, the Management Board of the Parent company has not identified any significant alterations to the method or terms of dividend payments to the Company. All dividend payments from subsidiaries will continue to be made under the existing terms and conditions, contingent upon the fulfilment of the criteria governing profit distribution. The sole restriction in this regard applies to the payment of dividend from Mercor-PROOF, where amounts exceeding RUB 10 million (or PLN 561 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 assessing any indications, in accordance with IFRS 10, regarding the exercise of control over the subsidiary. The value of shares in the Russian company and receivables from the company is PLN 827 thousand, or 0.3% of the assets disclosed in the financial statements.

In view of the above and given the small contributions from the companies to consolidated revenue (Russian operations: 10.2% of the Group's revenue; Ukrainian operations: 1.1% 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 Company 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.

4. Impact of the COVID-19 pandemic on the Company's business

Throughout the pandemic, the Company's management consistently monitored the situation and its impact on the Company's business. In response, strategic adjustments were made to the organizational structure, implementing cost-saving measures that effectively enhanced the Company's resilience to economic downturns. Until the date of issue of these financial statements, the COVID-19-induced crisis had only a minor impact on the Company's business and financial results. The impact of the recession on the Company's revenue is small. Importantly, the Company's ability to collect receivables remains unaffected. Notably, thanks to the Company's product diversification strategy, sales markets and the portfolio of customers have experienced minimal turbulence. The situation was considered when formulating assumptions to assess the Company's ability to continue as a going concern and to value assets, particularly non-current assets, including investments in subsidiaries. For details, please refer to the relevant notes to these financial statements.

5. Statement of compliance

The financial statements of "MERCOR" S.A. for the financial year ended March 31st 2023, have been prepared in accordance with the International Financial Reporting Standards effective as of March 31st, 2023, as approved by the European Union.

6. Amendments to International Financial Reporting Standards

Effect of application of new accounting standards and changes in accounting policies

The accounting policies applied in the preparation of these financial statements for the year ended March 31st 2023 are consistent with those applied in the preparation of the full-year financial statements for the previous financial year, except for the application of new or revised standards and interpretations effective for annual periods beginning on or after January 1st 2022.

The amended standards and interpretations which were applied for the first time in the financial year ended March 31st 2023 do not have a material effect on the Company's financial statements.

The Company did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not effective as not yet endorsed by the European Union.

Standards not yet effective (new standards and interpretations)

The following standards and interpretations have been issued by the International Accounting Standards Board, but were not yet effective as at the reporting date:

- **IFRS 14 *Regulatory Deferral Accounts*** (issued on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until its final version is published; not endorsed by the EU by the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after January 1st 2016;
- **Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on September 11th 2014) – work on endorsing the amendments has been deferred indefinitely by the EU; effective date deferred indefinitely by the IASB;
- **IFRS 17 *Insurance Contracts*** (issued on May 18th 2017), including Amendments to IFRS 17 (issued on June 25th 2020) – effective for annual periods beginning on or after January 1st 2023;
- **Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies*** (issued on February 12th 2021) – effective for annual periods beginning on or after January 1st 2023;
- **Amendments to IAS 8: *Definition of Accounting Estimates*** (issued on February 12th 2021) – effective for annual periods beginning on or after January 1st 2023;
- **Amendments to IAS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*** (issued on May 7th 2021) – effective for annual periods beginning on or after January 1st 2023;
- **Amendments to IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information*** (issued on December 9th 2021) – effective for annual periods beginning on or after January 1st 2023;

- **Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of the Effective Date and Non-current Liabilities with Covenants** (issued on January 23rd 2020, July 15th 2020 and October 31st 2022, respectively); not endorsed by the EU as at the date of authorisation of these financial statements for issue; effective for annual periods beginning on or after January 1st 2024;
- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (issued on September 22nd 2022) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2024;
- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Vendor Financing Arrangements** (published on May 25th 2023) – not endorsed by the EU until the date of authorisation of these financial for issue – effective for annual periods beginning on or after January 1st 2024;
- **Amendments to IAS 12 Income Taxes: International Tax Reform – Second Pillar Model Rules** (published on May 23rd 2023) – not endorsed by the EU until the date of authorisation of these financial statements for issue – applicable to annual periods beginning on or after January 1st 2023.

Effective dates are the dates given by the International Accounting Standards Board in the standards. The effective dates of the standards in the European Union may differ from those specified in the text of the standards and are announced on endorsement of a standard by the European Union. The Company will apply the amendments to the standards not earlier than the date determined by the European Union as the effective date of the standard.

As at the date of authorisation of these financial statements for issue, the Company's Management Board did not expect the application of new standards and interpretations to have any material effect on the accounting policies applied by the Company.

7. Professional judgment of the Company's Management Board

When preparing the consolidated financial statements of the Company, the Management Board of the Parent has to make judgments, estimates and assumptions which affect the presented income, expenses, assets, liabilities as well as related notes, and disclosures concerning contingent liabilities. Uncertainties associated with these assumptions and estimates have the potential to cause significant adjustments to the carrying amounts of assets and liabilities in subsequent periods.

When applying the accounting policies, the Management Board made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities:

a) Revenue from contracts with customers

The Company determines the stage of completion of construction contracts by determining the proportion of costs incurred to date for a given project to the total estimated cost of that project.

Considering the inherent characteristics of the ongoing projects and the potential for unforeseen challenges during their execution, it is plausible that the actual total costs of the project may deviate from the estimates initially made. A revision in the estimated total cost of projects has the potential to impact the determination of the stage of completion and, consequently, the recognition of revenue as of the end of the reporting period.

b) Impairment of shares in related entities

Shares in subsidiaries, jointly-controlled entities and joint ventures are recognised at cost. In case of permanent impairment, the carrying amount of the shares is decreased through an appropriate write-down. As of the reporting date, the Company analyses indications of asset impairment. If indications of impairment are identified, impairment tests are performed and the effects of permanent impairment are recognised in profit or loss.

c) Impairment of non-current assets

The Company reviewed indications of potential impairment of non-current assets. In the case of property, plant and equipment and intangible assets other than development work, no indications of impairment were identified. Completed development work and work in progress goodwill were tested for impairment. The tests required an estimation of the value in use of the cash-generating unit to which the assets were allocated. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. For information on the results of the tests, see Note 12.

Upon review the equity interests held, indications of possible impairment of shares held in Tecresa were identified. The shares were tested for impairment, and the results of the test are described in Note 14. No indications of impairment were identified with respect to the other equity interests.

d) Deferred tax assets

The Company recognises a deferred tax asset if it assumes that taxable profit will be generated in the future against which the asset can be used. If taxable profit deteriorates in the future, this assumption may prove invalid.

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

When assessing whether it is highly probable that future taxable profit will be achieved (probability above 50%), the Company takes into account all available evidence, both that supporting existence of the probability and that supporting its absence.

e) Leases – the Company as a lessee

The Company determines the lease term as a non-cancellable lease term, including periods covered by an option to extend the lease, if such option exists and it is reasonably certain that the option will be exercised, as well as periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised.

The Company may extend the lease term of certain lease contracts. The Company applies judgment to assess whether there is reasonable certainty that the extension option will be exercised, which means that it takes into account all material facts and circumstances that represent an economic incentive to extend the option or an economic penalty for its non-extension. After the commencement date, the Company reviews the lease term if a significant event or change in circumstances under its control occur which affect its ability to exercise (or not to exercise) the extension option.

8. Uncertainty of estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below. The Company made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates may change in the future due

to market developments or factors beyond the Company's control. Such changes will be reflected in estimates and assumptions upon their occurrence.

a) Useful lives of non-current assets

The Company reviews the economic useful lives of depreciable non-current assets. The Management Board of the Company believes that as at March 31st 2023 the economic useful lives of assets assumed for depreciation purposes align with the expected periods of economic benefits for the respective assets. However, it is acknowledged that the actual periods of economic benefits may deviate from those assumptions.

Depreciation/amortisation rates are determined based on the expected useful lives of property, plant and equipment and intangible assets. Each year the Company reviews the useful lives of its assets based on current estimates.

b) Impairment of receivables

The Company uses a provision matrix to measure the allowance for expected credit losses in respect of trade receivables. In order to determine expected credit losses, trade receivables were grouped on the basis of similarity of credit risk characteristics. The Company uses its historical credit loss data, adjusted where appropriate for the impact of forward-looking information.

c) Provisions for employee benefits

In terms of employee benefits, the Company is not party to any wage agreements or collective bargaining agreements. Employee benefits expense includes salaries and wages payable in accordance with the terms of employment contracts with individual employees, retirement benefits (retirement severance payments) paid to employees in accordance with applicable laws post employment, and costs related to contributions to Employee Capital Plans in the part borne by the employer. Short-term employee benefit obligations are measured on a general basis. Long-term benefit obligations are estimated using actuarial methods. The application of these methods necessitates the use of various assumptions, such as suitable discount rates and demographic factors.

Provisions for employee benefits (retirement severance payments) were estimated using actuarial methods. The underlying assumptions are presented in Note 22.

d) Fair value of financial instruments

The fair value of financial instruments without an active market is determined using appropriate measurement techniques. When selecting appropriate methods and assumptions, the Company is guided by professional judgement.

e) Lessee's incremental borrowing rate

The Company is not able to readily determine the interest rate for lease contracts. Therefore, when measuring a lease liability, the Company uses the lessee's incremental borrowing rate. It is the rate of interest that the Company would have to pay to borrow – over a similar term, in the same currency and with a similar security – funds necessary to obtain an asset of a similar value to the leased asset in a similar economic environment.

f) Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differing opinions and diverse interpretations, both between various public authorities and between public authorities and businesses.

Tax settlements and other areas of activity (e.g., customs or foreign exchange control) may be subject to inspections by authorities that are entitled to impose high fines and penalties, and any additional tax liabilities resulting from such inspections must be paid with high interest. Consequently, the tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

On July 15th 2016, the tax legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent creation and use of abusive arrangements to avoid paying taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit which in the given circumstances is contrary to the object and purpose of tax laws. In accordance with GAAR, no tax advantage can be obtained through an arrangement which is abusive. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgment to be exercised when assessing the tax consequences of particular transactions.

GAAR should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but the benefit of the tax advantage obtained through the arrangement continued or still continues after that date. The implementation of the above regulations will grant Polish tax inspection authorities the authority to challenge certain legal arrangements made by taxpayers, including the restructuring or reorganization of corporate groups.

The Company discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, with due consideration given to uncertainties related to tax settlements.

When there is uncertainty as to whether and to what extent the tax authorities will accept individual tax settlements of transactions, the Company recognises these settlements taking into account the uncertainty assessment.

9. Material accounting policies

Intangible assets

Intangible assets which are separately acquired or produced are initially recognised at cost (if they meet the criteria for being recognised as development costs). The cost of acquiring intangible assets with indefinite useful lives equals their fair value as of the combination date. Subsequent to initial recognition,

intangible assets are disclosed at cost less accumulated amortisation and impairment. With the exception of capitalised development expenditure, expenditure on self-generated intangible assets is not capitalised and is charged to expenses in the period in which it was incurred.

The Company determines whether intangible assets have finite or indefinite useful lives. Intangible assets with finite useful lives are amortised over their useful lives and tested for impairment whenever there is an indication of impairment. The amortisation period and amortisation method for intangible assets with finite useful lives are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates. Amortisation charges on intangible assets with finite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually, either individually or at the cash-generating unit level.

The useful lives are reviewed on an annual basis and adjusted – if required – with effect as of the beginning of the next financial year.

Research and development expense

To assess whether an intangible asset created by the Company meets the criteria for recognition, the Company divides the process of asset creation into a research stage and a development stage.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Research costs are charged to profit or loss as incurred.

An intangible asset arising from development work is recognised by the Company when it can prove:

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) intention to complete the intangible asset and use or sell it;
- c) the ability to use or sell the intangible asset;
- d) how the intangible asset will generate probable future economic benefits;
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure incurred on development work performed as part of a project is carried forward if it can be assumed that it will be recovered in the future. After initial recognition of development expenditure, the historical cost model is used, requiring that assets be recognised at cost less accumulated depreciation and accumulated impairment losses. Capitalised expenditure is amortised over the expected period when the benefits from the development project will be obtained. Amortisation commences in the period when an intangible asset created as a result of development work starts to generate economic benefits.

Intangible assets are amortised at amortisation rates that reflect the expected useful lives of the assets. The Company does not hold any intangible assets with indefinite useful lives. For amortisation of intangible assets with a finite useful life, the straight-line amortisation method is used. Useful lives for intangible assets are as follows:

Software licenses from 2 to 10 years
Development work from 2 to 20 years

Gains or losses from derecognition of intangible assets are measured as the difference between net proceeds from the sale of a given asset and its carrying amount, and are recognised in profit or loss upon derecognition of the asset.

Property, plant and equipment

Property, plant and equipment is carried at cost less depreciation and impairment. Property, plant and equipment are initially disclosed at cost plus any costs directly related to the purchase of the assets and to bringing them to appropriate condition for their intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred if relevant recognition criteria are fulfilled. Costs incurred after the date an asset is brought into use, such as maintenance and repair costs, are charged to profit or loss when incurred.

The cost of property, plant and equipment transferred by customers is determined at fair value as at the date of obtaining control of such assets.

Upon acquisition, items of property, plant and equipment are divided into components of material value to which separate useful economic lives can be assigned. The cost of overhauls is also deemed a component.

Assets are depreciated with the straight-line method over the estimated useful life, as detailed below:

Buildings and structures from 10 to 45 years

Plant and equipment from 3 to 10 years

Vehicles from 4 to 7 years

Other property, plant and equipment from 3 to 10 years

The residual value, useful life and method of depreciation of assets are reviewed periodically and adjusted if necessary from the beginning of the next financial year.

An item of property, plant and equipment may be derecognised upon disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are charged to profit or loss for the period when the item was derecognised.

Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost less any impairment losses. An item of property, plant and equipment under construction is not depreciated until the construction or assembly work is completed and the item is placed in use.

Financial assets

Classification of financial assets

Financial assets are classified into the following categories:

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

The Company classifies financial assets based on its business model of financial asset management and the assets' contractual cash flow characteristics (the SPPI test). The Company reclassifies investments in debt instruments when, and only when, their management model changes.

Measurement on initial recognition

Except for some trade receivables, on initial recognition financial assets are recognised at fair value which – in the case of financial assets other than those at fair value through profit or loss – is increased by transaction costs directly attributable to acquisition of the assets.

Derecognition

Financial assets are derecognised when:

- the contractual rights to the cash flows from the financial asset expire, or
- upon transfer of contractual rights to cash flows from the asset following a transaction whereby the Company transferred substantially all risks and rewards incidental to holding the financial asset.

Measurement subsequent to initial recognition

For the purpose of measurement subsequent to initial recognition, financial assets are classified into one of the following four categories:

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

Debt instruments – financial assets measured at amortised cost

A financial asset is carried at amortised cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company classifies the following types of financial assets as measured at amortised:

- trade receivables,
- loans that meet the SPPI classification test and, in line with the business model, are recognised as held to collect cash flows,
- cash and cash equivalents.

Interest income is calculated using the effective interest method and disclosed in the statement of comprehensive income in the line item 'Finance income'.

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

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

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income as well as foreign exchange and impairment gains and losses are recognised in profit or loss and calculated in the same manner as financial assets measured at amortised cost. Other changes in fair value are recognised through other comprehensive income. When a financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Interest income is calculated using the effective interest method and disclosed in the statement of comprehensive income in the line item 'Finance income'.

The Company has no debt instruments measured at fair value through other comprehensive income.

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

On initial recognition, the Company may make an irrevocable election to recognise in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is contingent consideration recognised by the acquirer in a business combination to which IFRS 3 applies. Such election is made separately for each such equity instrument. The cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss. Dividends are recognised in the statement of comprehensive income when the Group's right to receive dividend is established, unless the dividend clearly represents recovery of a portion of the investment cost.

The Company does not hold equity instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss

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

The Company classifies derivative financial instruments that have not been irrevocably designated for fair value through other comprehensive income as financial assets measured at fair value through profit or loss.

Gain or loss on measurement of those assets at fair value is recognised in profit or loss.

Dividends are recognised in the statement of comprehensive income when the entity's right to receive the dividend arises.

Impairment of financial assets

The Company assesses expected credit losses ("ECL") associated with debt instruments measured at amortised cost and fair value through other comprehensive income, regardless of whether there is any indication of impairment.

For trade receivables, the Company uses a simplified approach and measures the allowance for expected credit losses at an amount equal to expected lifetime credit losses using a provision matrix. The Company uses its historical credit loss data, adjusted where appropriate for the impact of forward-looking information.

For other financial assets, the Company accounts for the expected credit loss allowance at the amount equal to 12 months of the expected credit loss. The Company measures the allowance for expected credit losses on a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk of that financial instrument has increased significantly since its initial recognition.

The Company estimates that the credit risk associated with a financial instrument has increased significantly since its initial recognition if the time past due is more than 30 days.

The Company considers the debtor to have defaulted if days past due exceed 180 days and the debt is not insured.

Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are recognised at cost, net of impairment losses.

Subsidiaries are entities controlled by the Company.

The Company controls an investee if it:

- exercises power over the investee,
- is exposed to or has rights to variable returns from its exposure to the investee,
- has the ability to use its power over the investee to affect the amount of its returns.

The Company verifies whether it has control of other entities if there is an indication of change in one or more of the above conditions of control.

If the Company holds less than a majority of voting rights in an investee, but the voting rights held are sufficient to direct the relevant activities of the investee unilaterally, this means that the Company has control of the investee. When assessing whether the Company's voting rights at an investee are sufficient to give the control, the Company considers all relevant circumstances, including:

- the size of the voting interest held compared with the size of interests and the degree of dispersion of voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous general meetings of shareholders.

Associates are entities over which the Company has significant influence, other than subsidiaries or interests in the Company's joint ventures. Significant influence is the ability to participate in the financial and operational policy decisions of a business; however, it does not mean exercising control or joint control over that policy.

Joint ventures are arrangements under which two or more parties undertake a jointly controlled economic activity. Joint control is the contractually agreed sharing of control over an economic activity. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

Measurement at fair value

The Company measures financial instruments at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in most advantageous market for the asset or liability.

The Company must have access to the principal (or most advantageous) market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- level 1: inputs for the asset or liability are quoted (unadjusted) market prices on an active market for identical assets or liabilities;
- level 2: inputs for the asset or liability that are based on directly or indirectly observable market data;
- level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy (based on the input of the lowest level that is significant for the whole valuation).

Summary of material accounting policies concerning fair value measurement

The Management Board determines the rules and procedures for systematic fair value measurement of such assets as investment property or unlisted financial assets, as well as non-recurring measurements such as assets held for sale in discontinued operations.

For the purposes of the disclosure of the results of measurement at fair value the Company has established classes of assets and liabilities based on the nature, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy as described above.

Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of each inventory item includes all purchase costs, processing costs and other costs incurred in bringing the inventory to its current location and condition – both for the current and previous year - and is determined as follows:

- | | |
|-------------------------------------|---|
| Materials | • at purchase price determined on a first-in-first-out basis |
| Finished goods and work in progress | • at direct costs of raw materials, consumables and labour and an appropriate indirect cost overhead determined assuming normal production capacity utilisation, net of borrowing costs |

Net realisable value is the estimated sale price in the ordinary course of business, less estimated costs of completion and costs to sell.

Inventory write-downs resulting from prudent valuation and write-downs for slow-moving inventories, as well as their reversals, are charged to cost of sales.

Trade and other receivables

Trade receivables are recognised and carried at amounts initially invoiced, less allowances for lifetime expected credit losses.

Where the effect of the time value of money is material, the value of receivables is determined by discounting projected future cash flows to their present value using a discount rate reflecting the current market assessments of the time value of money. Where discounting is applied, an increase in receivables as a result of the passage of time is recognised as finance income.

Other receivables include in particular prepayments made for future purchases of intangible assets and inventories. Prepayments are presented according to the type of assets to which they refer: as non-current or current assets, respectively. As non-monetary assets, prepayments are not discounted.

Receivables from the state budget are presented under other non-financial assets, except for corporate income tax receivable, which is presented as a separate item in the statement of financial position.

Cash and cash equivalents

Cash and short-term deposits disclosed in the statement of financial position comprise cash at banks as well as short-term deposits with original maturities of up to three months.

Cash and cash equivalents presented in the statement of cash flows include the items specified above.

Bank borrowings

Bank borrowings are measured at amortised cost. Current-account overdrafts are the exception, as there are no fixed repayment schedules for them. For this type of borrowing, origination costs and other fees are expensed as finance costs in the period they are incurred. In other cases, finance costs, including fees payable on repayment or redemption and direct costs of borrowing, are recognised in the statement of comprehensive income using the effective interest rate method and adjusting the carrying amount of the instrument for repayments made in the current period.

Trade and other payables

Short-term trade payables are stated at amounts payable.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities held for trading or designated as measured at fair value through profit or loss.

As at March 31st 2023 and March 31st 2022, no financial liabilities were classified as measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, based on their market value as at the reporting date, net of costs to sell. Changes in the fair value of financial liabilities that are measured at fair value through profit or loss are recognised in profit or loss, except for changes in the fair value that are caused by changes in the entity's own credit risk, which are recognised in other comprehensive income.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

The Company derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires.

Other non-financial liabilities include, in particular, tax liabilities in respect of value added tax, social security and health insurance contributions, personal income tax, and liabilities in respect of advance

payments received, which will be settled through the supply of goods, services, or fixed assets. Other non-financial liabilities are measured at nominal amounts due.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation may be reliably estimated. If the Company anticipates that the costs for which provisions have been made 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. Costs related to a given provision are disclosed in the statement of comprehensive income net of all reimbursements.

Where the effect of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to present value using a discount rate that reflects current market assessments of the time value of money and the risks, if any, associated with the liability. Where discounting is applied, any increase in the provision due to the passage of time is recognized as finance costs.

Employee benefits

Old-age and disability retirement severance payments are one-off and paid upon retirement. The amount of retirement benefits depends on the employee's years of service and average remuneration. The Company recognises a provision for future retirement benefit obligations in order to allocate the related costs to the relevant periods. According to IAS 19, retirement gratuity benefits are defined post-employment benefit plans. The present value of these obligations at each reporting date is calculated by an independent actuary. The calculated value of the obligations is equal to the present value of discounted future payments, taking into account employee turnover, and relates to the period ending on the reporting date. Information on demographics and employee turnover is sourced from historical data.

The revaluation of employee benefit obligations under defined benefit plans, which includes actuarial gains and losses, is recognized in other comprehensive income and is not subsequently reclassified to profit or loss.

The Company recognises the following changes in net defined benefit obligations within cost of sales, administrative expenses and selling expenses, which consist of:

- service costs (including, but not limited to, current service costs, past service costs),
- net interest on net defined benefit obligations.

The Company incurs costs related to the operation of the Employee Capital Plans ("PPK") by making contributions to investment funds. They are post-employment benefits in the form of a defined contribution plan. Costs of PPK contributions are recognised in the same cost item as the cost of salaries and wages on which they are paid. PPK obligations are presented as other non-financial liabilities.

Grants

A government grant is recognised at fair value if there is reasonable assurance that the Company will comply with the conditions attached to it, and that the grant will be received.

If a grant relates to a cost item, it is recognised as income in matching with the expenses it is to compensate for. Where a grant relates to an asset, its fair value is recognised as deferred income and is

then gradually released to profit or loss over the expected useful life of the asset in equal annual instalments.

Foreign currency transactions

Transactions in currencies other than the Polish złoty are accounted for as at the transaction date using the following exchange rates:

- buy or sell exchange rates applied by the Company's bank are used in the case of transactions to buy or sell currencies and transactions to pay receivables or payables;
- mid-rates quoted for a given currency by the National Bank of Poland for that date.

Monetary assets and liabilities denominated in foreign currencies are accounted for as at the reporting date at the exchange rate quoted for the currency by the National Bank of Poland for that date. Exchange differences arising from the settlement of transactions denominated in foreign currencies, as well as those arising from the valuation as of the reporting date of items of assets and liabilities denominated in foreign currencies that relate to the Company's principal business, are recognized as finance costs or income.

The average exchange rates used to account for foreign currency items held by the Company as at the reporting date and the average annual rates during the periods covered by these financial statements were as follows:

Exchange rate	Mar 31 2023	Apr 1 2022 – Mar 31 2023	Mar 31 2022	Apr 1 2021 – Mar 31 2022
EUR (EUR)	4.6755	4.7086	4.6525	4.5865
Czech koruna (CZK)	0.1987	0.1934	0.1903	0.1814
Ukrainian hryvnia (UAH)	0.1258	0.1322	0.1467	0.1434
Romanian leu (RON)	0.9445	0.9561	0.9404	0.9288
Russian rouble (RUB)	0.0561	0.0697	0.0493	0.0523
Hungarian forint (HUF 100)	1.2278	1.1864	1.2588	1.2764
Pound sterling (GBP)	5.3107	5.4490	5.4842	5.3939

Leases – the Company as a lessee

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a uniform approach to the recognition and measurement of all leases. At the commencement date of a lease, the Company recognises a right-of-use asset and a lease liability.

Right-of-use assets

The Company recognises right-of-use assets at the lease commencement date (i.e. the date when the underlying asset is made available for use). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, the initial direct costs incurred and any lease payments made at or before the commencement date, less any lease incentives received. Unless the Company believes there is reasonable certainty it will acquire ownership of the leased assets after a relevant lease expires, the recognised right-of-use assets are depreciated using the straight-line method over the shorter of the estimated useful life and lease term. Right-of-use assets are tested for impairment.

Lease liabilities

At the lease commencement date, the Company measures lease liabilities at the present value of lease payments then outstanding. Lease payments include fixed payments (including in-substance fixed lease payments) less any lease incentives due, variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease if the lease terms grant a termination option to the Company. Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition triggering the payment occurs.

When calculating the present value of lease payments, the Company uses the lessee's incremental borrowing rate on the lease commencement date if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of lease liabilities is increased to reflect the interest, and reduced by lease payments made. Furthermore, the carrying amount of lease liabilities is remeasured if the lease term, in-substance fixed lease payments or judgement as to purchase of the underlying assets change.

Short-term leases and leases of low-value assets

The Company applies the exemption from short-term lease recognition to its short-term leases (i.e. leases with a term of 12 months or less from inception, with no purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Impairment of non-financial non-current assets

An assessment is made at the reporting date to determine whether there is any indication that any of non-financial long-term assets, including usufruct rights, may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the fair value less costs to sell the asset or cash generating unit respectively, or its usable value, whichever is greater. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

The Company assesses at the reporting date whether there is an indication that previously recognised impairment losses on a given asset no longer exist or should be reduced. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an impairment loss is immediately recognised as income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

Revenue from contracts with customers

The Company applies IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers except financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements*, and IAS 28 *Investments in Associates and Joint Ventures*.

The fundamental principle of IFRS 15 is to recognise revenue when goods and services are transferred to the customer, at a value that reflects the price expected by the entity to be received in exchange for the transfer of the goods and services. The principle is applied using a five-step model:

- identifying the contract with the customer,
- identifying performance obligations under the contract,
- determining the transaction price,
- allocating the transaction price to the performance obligations,
- recognising revenue when a performance obligation is satisfied.

Identifying the contract

The Company accounts for a contract with a customer only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The Company can identify each party's rights regarding the goods or services to be transferred;
- The Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the Company's future cash flows is expected to change as a result of the contract); and
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When assessing whether the consideration is likely to be collected, the Company takes into account only the customer's ability and intention to pay that consideration when due. The consideration to which the Company will be entitled may be lower than the price specified in the contract if the consideration is variable as the Company may offer a price concession to the customer.

Identifying performance obligations

At contract inception, the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation each promise to transfer to the customer either a good or service (or bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct if both of the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Determining the transaction price

When making this determination, the Company considers the contract terms and its customary business practices. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services to the customer, excluding amounts

collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Variable remuneration

If the consideration defined in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer. The Company estimates an amount of variable consideration by using either of the following methods, depending on which method the Company expects to better predict the amount of consideration to which it is entitled:

- the expected value method, determined as the sum of probability weighted amounts in a range of possible consideration amounts. This may be an appropriate approach if the Company has a large number of contracts with similar characteristics;
- the most likely amount method, with the single most likely amount in a range of possible consideration amounts from the contract. This may be an appropriate approach if the contract has only two possible outcomes, such as a performance bonus which will or will not be received by Company.

The Company includes in the transaction price some or all of the variable consideration only to the extent that it is highly probable that there will not be a significant reversal of cumulative revenue after the uncertainty associated with the variable consideration is gradually resolved.

Some contracts with customers contain elements of variable consideration arising as a result of discounts, rebates or penalties.

If the consideration defined in a contract includes a variable amount, the entity estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer and includes in the transaction price all or part of the variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company estimates the amount of variable remuneration using the expected value method.

Allocating the transaction price to performance obligations

The Company allocates the transaction price to each performance obligation (or to a distinct good or service) in an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Satisfying performance obligations

The Company recognises revenue when (or as) the Company satisfies a performance obligation by transferring a promised good or service to the customer.

Principal versus agent considerations

When another entity is involved in providing goods or services to a customer, the Company evaluates the nature of its promise to the customer, whether the nature of the Company's performance obligation is to provide the specified goods or services to the customer itself (in this case the Company is the principal) or to arrange for them to be provided by another entity (in this case the Company is an agent).

The Company acts as the principal if it controls the promised good or service before transferring it to the customer. However, the entity is not acting as the principal if it obtains legal title to a specified good only momentarily before the legal title is transferred to the customer. A principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (e.g. a subcontractor) to satisfy some or all of the performance obligations on its behalf. In such circumstances, the Company recognises revenue in the gross amount to which it expects to be entitled in exchange for the specified goods or services transferred.

The Company acts as the agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In such a case, the Company recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Significant financing component

In the case of contracts with customers where the time period between the transfer of the promised goods or services and payment by the customer is expected to be more than 12 months, the Company recognizes a significant financing component due to the time value of money. In order to determine the transaction price, the Company adjusts the promised amount of consideration for a significant financing component using the discount rate that would be reflected in a separate financing transaction between the entity and the customer at contract inception.

Warranty

The Company provides warranty for sold products, ensuring that the products conform to the specifications agreed upon by the parties. The Company recognises such warranties in accordance with IAS 37.

Provisions, contingent liabilities and contingent assets

Some non-standard contracts with customers contain extended warranty. An extended warranty is a separate service and is recognised as a performance obligation to which part of the transaction price is allocated.

Capitalised costs to obtain a contract

The Company recognises incremental costs of obtaining a contract with a customer as an asset if the costs are expected to be recovered. Incremental costs of obtaining a contract are those costs incurred by an entity to obtain a contract with a customer which the entity would not have incurred if the contract had not been concluded. Incremental costs of obtaining a contract include mainly design and architectural services. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred, unless the costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Contract assets

As contract assets, the Company recognises the right to consideration in exchange for goods or services transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Company's future performance). The Company recognises expected credit losses in the same way as financial assets in accordance with IFRS 9.

Receivables

Under receivables, the Company recognises the right to consideration in exchange for goods or services transferred to a customer if the right is unconditional (only the passage of time is required before payment of that consideration is due.). The Company recognises receivables in accordance with IFRS 9. On initial recognition of a contract receivable, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue previously recognised are recognised as an expense (impairment loss on trade receivables and other financial assets).

Contract liabilities

Under contract liabilities, the Company recognises such consideration received or receivable from a customer which relates to the obligation to transfer goods or services to the customer.

Right-of-return assets

Under right-of-return assets, the Company recognises the right to recover products from customers on settling the refund liability.

The Company generates revenue through several revenue streams. These are mainly:

- supply of products and provision of assembly services – revenue recognised over time
- supply of products without assembly services – revenue generally recognised at the date of transfer of goods to the customer
- supply of materials – revenue generally recognised at the date of transfer of goods to the customer,
- maintenance services – revenue recognised over time.

Revenue from the supply of products without assembly and the supply of materials is recognized on the date of transfer of control of the goods to the customer, as determined by the commercial terms and conditions of the contract, in accordance with the INCOTERMS International Trade Rules.

For the supply of products with assembly services, and for the provision of maintenance services revenue is recognized over time using a cost-to-cost method. The cost-to-cost method compares the costs incurred in the provision of a given service to its budgeted costs and the progress of work thus determined.

Borrowing costs

Borrowing costs are capitalised as part of the cost of property, plant and equipment. Borrowing costs comprise interest calculated using the effective interest rate method, finance charges in respect of finance leases, and foreign exchange differences related to borrowings, up to the amount of the interest expense adjustment.

Taxation

Current income tax payable and receivable for the current period and for previous periods is measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and laws that were enacted or substantively enacted as at the reporting date.

For financial reporting purposes, the Company recognises deferred tax assets and deferred tax liabilities on all temporary differences existing at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. An unrecognised deferred tax asset is revalued at each reporting date and is recognised to the extent that it is probable that future taxable profits will be available to recover the asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss: as part of other comprehensive income for items recognised in other comprehensive income or directly in equity for items recognised directly in equity.

The Company offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

If, in the opinion of the Company, it is probable that the Company's approach to a tax issue or group of tax issues will be accepted by a tax authority, the Company determines the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates taking into account the approach to taxation planned or applied in its tax return. In assessing this probability, the Company assumes that the tax authorities with the power to audit and challenge the tax treatment will conduct such an audit and will have access to all information.

If the Company determines that it is not probable that the tax authority will accept the Company's treatment of a tax issue or group of tax issues, the Company reflects the effect of the uncertainty in the accounting treatment of the tax in the period in which it determines it. The Company recognises an income tax liability using one of the following two methods, whichever better reflects the way in which the uncertainty is likely to materialise:

- The Company determines the most likely scenario – this is a single amount from among possible outcomes, or
- The Company recognises the expected amount – the sum of probability-weighted amounts from a range of possible outcomes.

Operating segments

The Company's entire operations are presented as a single operating segment. This is due to the similarities in economic characteristics, products and services, production processes, customer groups, distribution methods, and regulatory environments. Management reporting is also conducted for all product groups in aggregate.

NOTE 3 – REVENUE

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Revenue from sale of products and services	294,495	239,423
- <i>including revenue recognised over time</i>	<i>123,130</i>	<i>92,117</i>
Revenue from sale of merchandise and materials	61,972	51,974
Total revenue	<u>356,467</u>	<u>291,397</u>
including:		
- from sales to related entities	<u>55,909</u>	<u>57,762</u>

Main products

The Company's business consists in the production, sale, construction and assembly, as well as maintenance of passive fire protection systems. The products offered could be divided into three product groups:

- smoke exhaust and rooflight systems,
- fire ventilation systems,
- fire protections of building structures.

Revenue by geographical markets

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Poland	265,247	214,126
Czech Republic and Slovakia	15,554	19,567
Russia	-	4,227
Ukraine	1,139	2,635
Romania	3,692	5,469
Spain	12,231	8,935
Hungary	8,414	4,599
UK	6,323	4,638
Other	43,867	27,201
Total revenue	<u>356,467</u>	<u>291,397</u>

The Company has a fragmented customer base. Sales to any one customer do not exceed 10% of the turnover of the Company.

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Current contract assets	14,289	12,216
Current contract liabilities	2,240	2,861

Contract assets and liabilities arise from differences in the measurement of revenue recognized over time and the amounts invoiced to customers.

NOTE 4 – OPERATING EXPENSES

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Cost of sales	284,428	234,978
Selling expenses	25,798	21,432
Administrative expenses	16,662	14,137
Total operating expenses	<u>326,888</u>	<u>270,547</u>
including:		
Depreciation and amortisation	10,847	8,132
Raw materials and consumables used	146,330	119,929
<i>including change in products</i>	<i>(2,831)</i>	<i>(3,508)</i>
Services	62,911	50,795
Salaries and wages	45,440	40,081
Employee benefits	9,543	8,043
Taxes and charges	1,609	1,337
Other	3,603	1,784
Cost of merchandise and materials sold	46,605	40,446
	<u>326,888</u>	<u>270,547</u>

Personnel expenses

Salaries and wages

Payroll costs include salaries payable in accordance with the terms of employment contracts with individual employees.

Employee benefits

Social security costs include pension, disability, and accident insurance benefits, as well as contributions to the Guaranteed Employee Benefits Fund and the Labour Fund. According to the current regulations, the social security costs for the period from April 1st 2022 to March 31st 2023 amounted to 20.01% of maximum taxable earnings. In the preceding reporting period, these costs were 20.25% of the maximum taxable earnings.

Pension benefits expense includes retirement severance payments paid to employees in accordance with applicable labour regulations. The Company incurs costs related to the operation of the Employee Capital Plans ("PPK") by making contributions to investment funds. They are post-employment benefits in the form of a defined contribution plan. The Company recognises costs of payments to PPK as employee benefit expense. PPK liabilities are presented as part of other liabilities.

The Company is required to create a Company Social Benefits Fund. Contributions to the fund are expensed and are ring-fenced in the fund's separate bank account. In the financial statements, the fund's assets and liabilities are disclosed at net amounts.

Other employee benefits include training and other benefits prescribed by labour laws.

Development costs

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Expensed development costs	1,272	1,566
Amortisation of capitalised development costs	2,605	2,801
	<u>3,877</u>	<u>4,367</u>

Development costs are recognized as an intangible asset only when the conditions for recognition are met and in accordance with the policies described in Note 2. Amortization of capitalized development costs is charged to cost of sales, while research costs and expenditures that do not meet the criteria for capitalization are presented in selling expenses.

NOTE 5 – OTHER INCOME

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Gain on disposal of property, plant and equipment	1,111	641
Reimbursement of court costs	78	128
Compensation and penalties received	120	151
Recoveries previously written off as uncollectible	3	3
Liabilities written off	13	271
Grants for development projects	597	611
Other	18	-
	<u>1,940</u>	<u>1,805</u>

NOTE 6 – OTHER EXPENSES

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Provision for warranty repairs	-	303
Penalties, fines and damages paid	28	10
Written-off receivables not previously covered by impairment provision	-	57
Litigation costs	128	5
Other	58	227
	<u>214</u>	<u>602</u>

NOTE 7 – FINANCE INCOME

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Dividends	6,283	7,250
Interest on late payments	85	750
Interest on loans	1,848	515
Interest on security deposits	443	-
Early payment discount	82	128
Gain on disposal of financial assets	-	779
	<u>8,741</u>	<u>9,422</u>

Dividend income in each reporting period was as follows:

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Mercor Proof	368	1,554
Mercor Czech Republic	757	230
Mercor Fire Protection System	699	-
Tecresa Proteccion Pasiva	1,109	-
Mercor Dunamenti	3,350	5,009
TOB Mercor Ukraina	-	457
	<u>6,283</u>	<u>7,250</u>

NOTE 8 – FINANCE COSTS

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Interest on bank borrowings	4,952	1,304
Interest on loans	246	89
Interest on late payments	49	13
Interest on security deposits and leases	1,865	702
Net foreign exchange losses	142	4
Commission fees on bank borrowings and guarantees	534	482
	<u>7,788</u>	<u>2,594</u>

NOTE 9 – IMPAIRMENT LOSSES ON SHARES IN SUBSIDIARIES

In the reporting period, the Company assessed whether there were any grounds for recognizing an impairment loss on its investments in subsidiaries. Potential indications of impairment of shares in Tecresa Protección Pasiva and Elmech-ASE S.A. were identified. Consequently, an impairment test was conducted to assess the carrying amount of the investment (see Note 14 for details). The analysis of indications of impairment of shares in the other companies did not reveal any need to perform impairment tests.

NOTE 10 – INCOME TAX

Tax expense is calculated based on the tax rates in effect for the financial year in individual jurisdictions. In Poland, the income tax rate of 19% of the tax base has been in force since 2004.

The Company is subject to general income tax laws. The Company is not part of a tax group, nor does it operate in a Special Economic Zone. The Company does not have income tax exemptions or other forms of public aid that would differentiate the rules for determining the tax base from the general provisions in this regard.

The main components of the income tax expense in the reporting periods were as follows:

	Apr 1 2022 – Mar 31 2023	Apr 1 2021 – Mar 31 2022
Statutory tax rate	19%	19%
<i>Current income tax</i>	PLN thousand	PLN thousand
Current income tax expense	6,360	4,629
Withholding tax on corporate profit distribution income	34	178
Prior-year adjustments	-	(117)
	6,394	4,690
<i>Deferred income tax</i>		
Related to recognition and reversal of temporary differences	(412)	(357)
	(412)	(357)
Tax expense disclosed in profit or loss	5,982	4,333

The differences between the nominal and effective tax rates were as follows:

Profit/(loss) before tax	29,911	28,908
Effective tax rate	20.00%	14.99%
Income tax at effective tax rate	5,982	4,333
Income tax at statutory tax rate	5,683	5,493
Tax effect of tax-exempt income (dividends)	-	(995)
Tax effect of non-deductible expenses and non-taxable income according to tax regulations	299	(165)
Income tax at effective tax rate	5,982	4,333

Deferred tax is recognised for temporary differences between taxable income and profit disclosed in the financial statements. As at March 31st 2023 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 Mar 31 2023	End of period Mar 31 2022	Apr 1 2022 – Mar 31 2023	Apr 1 2021 – Mar 31 2022
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<i>Deferred tax liability</i>				
Differences between tax base and carrying amount of property, plant and equipment and intangible assets	2,718	2,297	(421)	126
Effect of measurement of long-term contracts	2,541	2,081	(460)	(1,139)
Unrealised exchange differences and measurement of forward contracts	-	-	-	-
Accrued interest	130	15	(115)	(15)
Gross deferred tax liability	5,389	4,393	(996)	(1,028)
<i>Deferred tax assets</i>				
Effect of measurement of long-term contracts	929	1,510	(581)	768
Provision for employee expenses and employee benefit obligations	3,305	2,818	487	914
Impairment losses on receivables	1,443	1,014	429	(42)
Write-downs of inventories	1,946	693	1,253	(163)
Unrealised exchange differences and measurement of forward contracts	4	30	(26)	23
Accrued interest	183	118	65	5
Gain on sale of property, plant and equipment (deferred income)	-	219	(219)	(120)
Gross deferred tax assets	7,810	6,402	1,408	1,385
Net deferred tax assets/(liabilities)	2,421	2,009		
Deferred tax expense			412	357
Amounts recognised in equity			-	-

Deferred tax was recognized in the presented periods for all temporary differences between profit or loss and the tax base, except for deferred tax assets arising from the difference between the net carrying amount and the tax base of shares in subsidiaries.

The Company does not intend to sell its shares in subsidiaries in the foreseeable future, and therefore the probability of realising the temporary difference is not high.

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 Company 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 Company 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 Company 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). The Management Board also maintained its claim for a full refund of the overpaid taxes. In the audit report delivered to the Company 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 Company 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 Company 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 Company 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 Company 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 Company'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 Company 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 Company 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 as the legal basis the transfer pricing regulations (determining the amount of income on the sale of shares at PLN 0.00), instead of the previously cited artificiality of the transaction. In August 2016, the Company 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, The Company's complaints were dismissed. Nevertheless, the Company 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 Company 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 Company

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 Company 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 Company'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.

In May 2021, the Company filed appeals against the above decisions with the Director of the Tax Administration Chamber in Gdańsk, disagreeing with the findings made by the Head of the Gdańsk Province Tax Office. In October 2021, the Company 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, as a result, filed complaints against both decisions of the Director of the Tax Administration Chamber in Gdańsk with the Provincial Administrative Court in Gdańsk. The court scheduled the hearings to consider the complaints for February 28th 2023. The appealed decisions were revoked by the Provincial Administrative Court of Gdańsk of February 28th 2023.

In the opinion of the Management Board of the Company, 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.

Tax audit for the financial year April 1st 2013 – March 31st 2014

In November 2018, an audit procedure was completed by the Gdańsk Province Customs and Tax Office to verify the declared tax bases as well as the correctness of the calculation and payment of corporate income tax for the financial year 2013, i.e. April 2013–March 2014. In December 2018, the Company received a decision of the Head of the Gdańsk Province Customs and Tax Office in Gdynia issued on the basis of the audit report. In accordance with the audit findings, the Head challenged the Company's right to report the tax loss of PLN 19,857,264.61 in the tax return for the period audited, and assessed income on free-of-charge benefits in the form of interest on the loan received, which was not reported by the Parent, at PLN 2,407,786.98. As a result, the corporate income tax liability assessed for the year 2013/2014 was PLN 4,230,360.00.

The Company filed its objections to the report, disagreeing with the Head's findings regarding its inability to report the tax loss (the challenged tax loss was the subject of a cassation complaint filed by the Parent with the Supreme Administrative Court, on which a judgment was issued on April 1st 2019). At the same time, the Company complied with the Head's instruction to report income on free-of-charge benefits, as a result of which on November 30th 2018 it filed a correction of the tax return for the year 2013/2014 and for subsequent years (2014/2015, 2015/2016 and 2016/2017). The correction resulted in corporate income tax liability of PLN 119,519.00 for the tax year ended March 31st 2017. The tax liability together with interest due was settled by the Company on the same date on which it filed the correction. On December 4th 2018, the Company received a decision of the Head of the Gdańsk Province Customs and Tax Office assessing corporate income tax liability at PLN 4,260,360.00. The Parent appealed against the decision of the Head of the Gdańsk Province Customs and Tax Office to the Director of the Tax Administration Chamber in Gdańsk. In this respect, the Director of the Tax Administration Chamber vacated the decision issued by the Head of the Gdańsk Province Customs and Tax Office in Gdynia and

remanded the case for re-examination in connection with the setting aside of the judgments of the Provincial Administrative Court and the decisions of the Director of the Tax Chamber in Gdańsk. Having re-examined the case, on 5 April 2022 the Head of the Gdańsk Province Customs and Tax Office in Gdynia issued a decision reassessing the Company's corporate income tax liability for the year 2013/2014 at PLN 4,230,360.00. The decision challenged the Company's ability to deduct tax losses incurred in the tax year 2012/2013 based on a decision issued in April 2021 by the Head of the Gdańsk Province Tax Office in Gdańsk, which was not final (an appeal was pending). On May 2nd 2022, the Company filed an appeal against the decision with the Director of the Tax Administration Chamber in Gdańsk via the Head of the Gdańsk Province Customs and Tax Office.

On September 12th 2022, the Director of the Tax Administration Chamber in Gdańsk issued a decision vacating the decision of the Head of the Gdańsk Province Customs and Tax Office in Gdynia dated April 5th 2022 assessing corporate income tax liability for the tax year April 1st 2013–March 31st 2014 at PLN 4,230,360.00. The Director of the Tax Administration Chamber in Gdańsk stated that the Company's tax liability for the period became statute-barred. It therefore vacated the decision of the first instance authority in its entirety and discontinued the proceedings.

NOTE 11 – EARNINGS PER SHARE AND DIVIDENDS

Earnings (loss) per share

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
Number of shares (net of treasury shares)	15,544,103	15,582,123
Net profit/(loss) for the period (PLN thousand)	23,929	24,575
Earnings per share (PLN)	1.54	1.58

Basic earnings per share is calculated by dividing the net profit attributable to the Company's common shareholders for the year by the weighted average number of outstanding common shares during the period, adjusted for any repurchased treasury shares. There were no financial instruments that caused earnings dilution during the current or previous financial year. Therefore, the values of basic and diluted earnings per share are equal.

Dividends paid and declared

In line with the adopted strategy, the Management Board of the Company intends to continue to pay dividend. The Management Board has yet to determine the method of distributing the Company's profit and the dividend amount to propose to the Annual General Meeting.

A dividend of PLN 0.63 per share, i.e. a total of PLN 9,865 thousand, was paid for the previous financial year.

NOTE 12 – INTANGIBLE ASSETS

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Costs of completed development work	9,477	6,841
Capitalised costs of development work in progress	3,117	5,748
Concessions and licences	862	1,184
	<u>13,456</u>	<u>13,773</u>

Development expenditure at the Company includes the cost of certification processes for new products and technologies to be placed on the market. Development work is recognised as assets and amortised in accordance with the policies described in Note 2.

The Company conducted impairment tests for all completed and ongoing development work carried out by the Company, using a discounted cash flow method. One cash-generating unit (CGU) to which the above assets are assigned was identified for impairment testing of completed development work and development work in progress. The discount rate applied in the tests was determined using the weighted average cost of capital, set at 9.00%. The impairment tests did not indicate any need for recognising impairment losses.

Changes in key assumptions, to the extent reasonably possible (i.e., EBITDA (+/- 10%) and WACC (+/- 1pp)), would not lead to the carrying amount of the cash-generating units exceeding their recoverable amounts.

The impairment tests for development projects performed as of March 31st 2023 were based on discounted cash flow projections for a period of five years from the reporting date. The forecasts take into account the specific characteristics of a given market and are based on past experience in the market. The cash flow projections, along with their business rationale, were formulated by the heads of the R&D department, encompassing a span of five years, i.e. the financial years from April 1st 2023 to March 31st 2028. The long-term growth rate was derived from the economic growth data published by the OECD for Poland. For the purpose of discounting future cash flows, an interest rate corresponding to the cost of capital was employed, calculated using the weighted average cost of capital method (WACC).

Licenses mainly comprise licenses for computer systems and utility software utilized in the Company's operations.

None of the Company's intangible assets are pledged as collateral.

Changes in intangible assets for the period from April 1st 2022 to March 31st 2023

	Costs of completed development work	Costs of capitalised development work in progress	Acquired permits, patents, licenses and similar assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross amount				
As at Apr 1 2022	30,264	5,748	7,529	43,541
Increase:				
- purchase and transfer from property, plant and equipment under construction	-	-	206	206
- self-generated	5,241	2,610	-	7,851
Decrease:				
- sale and retirement	-	-	-	-
- development work completed with positive result	-	5,241	-	5,241
As at Mar 31 2023	35,505	3,117	7,735	46,357
Accumulated amortisation				
As at Apr 1 2022	23,423	-	6,345	29,768
Increase:				
- depreciation	2,605	-	528	3,133
Decrease:				
- sale and retirement	-	-	-	-
As at Mar 31 2023	26,028	-	6,873	32,901
Net carrying amount as at Mar 31 2023	9,477	3,117	862	13,456

Changes in intangible assets for the period from April 1st 2021 to March 31st 2022

	Costs of completed development work PLN thousand	Costs of capitalised development work in progress PLN thousand	Acquired permits, patents, licenses and similar assets PLN thousand	Total PLN thousand
Gross amount				
As at Apr 1 2021	27,857	5,160	7,524	40,541
Increase:				
- purchase and transfer from property, plant and equipment under construction	-	-	5	5
- self-generated	2,407	2,995	-	5,402
Decrease:				
- sale and retirement	-	-	-	-
- development work completed with positive result	-	2,407	-	2,407
As at Mar 31 2022	30,264	5,748	7,529	43,541
Accumulated amortisation				
As at Apr 1 2021	20,622	-	5,767	26,389
Increase:				
- depreciation	2,801	-	578	3,379
Decrease:				
- sale and retirement	-	-	-	-
As at Mar 31 2022	23,423	-	6,345	29,768
Net carrying amount as at Mar 31 2022	6,841	5,748	1,184	13,773

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Land	8,406	5,406
Buildings and structures	23,231	8,926
Machinery and equipment	28,354	7,415
Vehicles	632	336
Other	861	877
Property, plant and equipment	61,484	22,960
Property, plant and equipment under construction	145	20,276
Prepayments for property, plant and equipment	801	455
	<u>62,430</u>	<u>43,691</u>

The land disclosed as at March 31st 2023 and March 31st 2022 comprises Company's own land.

As at the reporting date, non-current assets were assessed by the Company for indications of possible impairment. A significant increase in the prices of energy consumed in the manufacturing process was identified as an indication of possible impairment of assets associated with the manufacture and marketing of mcr Silboard fire protection boards, whereupon an impairment test was carried out.

The impairment test carried out as at March 31st 2023 for assets involved in the manufacture of mcr Silboard fire protection boards was based on discounted cash flow projections for a period of five years from the reporting date, taking into account the projected residual value. The long-term growth rate for calculating the value of the cash-generating unit beyond the period covered by the forecast was adopted taking into account the specific characteristics of the entity and the market in which it operates. Forecasts were prepared taking into account the specific characteristics of the relevant market and product category, based on past experience relating to the markets concerned. The cash flow projections with business rationale cover a period of five years, i.e. the financial years from April 1st 2023 to March 31st 2028.

The discount rate was determined based on the real weighted average cost of capital of 9.0% (the nominal WACC was 12.81%). The test did not indicate any need for recognising impairment losses on the assets involved in the manufacture of mcr Silboard fire protection boards.

Changes in key assumptions, to the extent reasonably possible (i.e., volume (+/- 10%) and WACC (+/- 1pp)), would not lead to the carrying amount of the cash-generating units exceeding their recoverable amounts.

Property, plant and equipment of the Company are pledged as security for bank borrowings and limits of available guarantee facilities. The value of property, plant and equipment pledged as collateral is shown in the table below.

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Value of property, plant and equipment pledged as collateral for credit facilities and guarantee lines granted to the Company	12,005	12,125
	<u>12,005</u>	<u>12,125</u>

Changes in the value of property, plant and equipment are shown in the following tables.

Changes in property, plant and equipment for the period from April 1st 2022 to March 31st 2023

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other	Tangible assets under construction	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross amount							
As at Apr 1 2022	5,406	15,882	23,511	2,082	3,225	20,276	70,382
Increase:							
- purchase and transfer from property, plant and equipment under construction	-	3,089	17,998	409	197	1,770	23,463
- transfer to property, plant and equipment	3,000	18,777	9,886	-	-	-	31,663
Decrease:							
- sale and retirement	-	-	147	565	92	-	804
- transfer to property, plant and equipment from property, plant and equipment under construction	-	-	-	-	-	21,901	21,901
As at Mar 31 2023	8,406	37,748	51,248	1,926	3,330	145	102,803
Accumulated depreciation							
As at Apr 1 2022	-	6,956	16,096	1,746	2,348	-	27,146
Increase:							
- depreciation	-	994	2,863	113	211	-	4,181
- transfer to property, plant and equipment	-	6,567	4,060	-	-	-	10,627
Decrease:							
- sale and retirement	-	-	125	565	90	-	780
As at Mar 31 2023	-	14,517	22,894	1,294	2,469	-	41,174
Net carrying amount as at Mar 31 2023	8,406	23,231	28,354	632	861	145	61,629

Changes in property, plant and equipment for the period from April 1st 2021 to March 31st 2022

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other	Tangible assets under construction	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross amount							
As at Apr 1 2021	4,106	15,829	18,193	1,687	3,081	13,737	56,633
Increase:							
- purchase and transfer from property, plant and equipment under construction	1,300	53	433	-	79	8,404	10,269
- transfer to property, plant and equipment	-	-	4,886	453	66	-	5,405
Decrease:							
- sale and retirement	-	-	1	58	1	-	60
- transfer to property, plant and equipment from property, plant and equipment under construction	-	-	-	-	-	1,865	1,865
As at Mar 31 2022	5,406	15,882	23,511	2,082	3,225	20,276	70,382
Accumulated depreciation							
As at Apr 1 2021	-	6,715	13,649	1,453	2,129	-	23,946
Increase:							
- depreciation	-	241	1,024	148	173	-	1,586
- transfer to property, plant and equipment	-	-	1,423	203	47	-	1,673
Decrease:							
- sale and retirement	-	-	-	58	1	-	59
As at Mar 31 2022	-	6,956	16,096	1,746	2,348	-	27,146
Net carrying amount as at Mar 31 2022	5,406	8,926	7,415	336	877	20,276	43,236

NOTE 14 – OTHER FINANCIAL ASSETS

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Shares in subsidiaries and jointly controlled entities (gross)	166,344	166,313
Loans to subsidiaries and jointly controlled entities	23,534	18,818
Impairment losses on shares	(87,260)	(87,260)
	<u>102,618</u>	<u>97,871</u>

The shares in subsidiaries comprise the interests in the following companies:

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Tecresa Protection Pasiva S.L.	52,584	52,584
Mercor Dunamenti Tűzvédelem Zrt	20,090	20,090
Mercor Fire Protection Systems srl	15	15
Mercor Proof LLC	827	827
MHD1 Sp. z o.o.	21	21
Mercor HD Sp. z o.o.	29	29
Mercor Czech Republic s.r.o.	33	33
Mercor Slovakia s.r.o.	21	21
TOB Mercor Ukraina	2,216	2,216
Mercor Silboard Sp. z o.o.	30	30
DFM DOORS Sp. z o.o.	82	82
MCR SOL ENERGY sp. z o.o.	5	5
MCR TECH-LAB Sp. z o.o.	25	-
Mercor Centrum Usług Wspólnych Sp. z o.o.	6	-
	<u>75,984</u>	<u>75,953</u>

The shares in jointly controlled entities comprise the following:

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Elmech-ASE S.A.	3,100	3,100
	<u>3,100</u>	<u>3,100</u>

In the financial year from April 1st 2021 to March 31st 2022, the Company acquired 757 shares in Elmech-ASE Sp. z o.o. of Pruszcz Gdański for a price of PLN 100 thousand. The shares represented 25% of the company's share capital and conferred the right to 25% of total voting rights. Subsequently, following an increase in the share capital of Elmech-ASE sp. z o.o. the Company acquired 1,516 new shares at a total price of PLN 3,000 thousand. The Company holds a total of 2,273 shares in Elmech-ASE Sp. z o.o., representing 50% of the Company's share capital and conferring the right to 50% of total voting rights

in Elmech-ASE Sp. z o.o. In February 2023, the legal form of the company changed, and it now operates as a joint-stock company.

In the previous year, the Company acquired:

- 55% of shares in MCR TECH-LAB Sp. z o.o., a newly created entity, for a total price of PLN 25 thousand. The acquired shares represent 55% of the total voting rights in MCR TECH-LAB Sp. z o.o.;
- 100% of shares in the newly established Mercor Centrum Usług Wspólnych Sp. z o.o. for a total price of PLN 5 thousand. The Company then proceeded to increase its share capital in exchange for the contributed assets of an organized part of the business. The acquired shares carry 100% of the total voting rights in Mercor CUW Sp. z o.o..

In previous financial years, the Company recognised impairment losses on its shares in the following entities:

- Tecresa Protección Pasiva S. L. for an amount of PLN 75,217 thousand,
- MHD1 Sp. z o.o., for an amount of PLN 10,135 thousand,
- TOB Mercor Ukraine Sp. z o.o. for an amount of PLN 1,908 thousand.

Investment in Tecresa Protección Pasiva

Potential indications of impairment of shares in Tecresa Protección Pasiva were identified. Consequently, an impairment test was conducted to assess the carrying amount of the investment. The analysis of indications of impairment of shares in the other companies did not reveal any need to perform impairment tests.

The impairment tests carried out as at March 31st 2023 for shares in Tecresa Protección Pasiva were based on discounted cash flow projections for a period of five years from the reporting date, taking into account the projected residual value. The long-term growth rates used to determine the value of the cash-generating units beyond the forecast period were established considering the distinct characteristics of the entities and the markets in which they operate. Forecasts were prepared taking into account the specific characteristics of the relevant market and product category, based on past experience relating to the markets concerned. The cash flow projections with business rationale cover a period of five years, i.e. the financial years from April 1st 2023 to March 31st 2028.

Based on market projections, the following increase in sales was assumed for the Tecresa Protección Pasiva CGU: 11% in the first year of the forecast, 12% in the second year, and 9% and 6% in subsequent years. The cash flows used as the basis for calculating the value of shares also include intragroup cash flows, with consideration given to transfer pricing. The recoverable amount of the Tecresa Protección Pasiva CGU was determined using the forecast value in use, which was calculated based on a cash flow projections derived from the five-year financial budgets approved by the senior management. The weighted average cost of capital of 10.26% (2021/22: 11.39%) was used to forecast the cash flows. Cash flows beyond the five-year period were estimated using a growth rate of 0.071% (2021/22: 1.25%).

The impairment test did not indicate any need for recognising impairment losses on shares held in the company. Changes in key assumptions, to the extent reasonably possible (i.e., EBITDA (+/- 10%) and WACC (+/- 1pp)), would not lead to the carrying amount of the cash-generating units exceeding their recoverable amounts.

Investment in Elmech-ASE S.A.

Potential indications of impairment of shares in the company were identified. Consequently, an impairment test was conducted to assess the carrying amount of the investment.

The impairment test carried out as at March 31st 2023 for shares in Elmech-ASE S.A. was based on discounted cash flow projections for a period of five years from the reporting date, taking into account the projected residual value. The long-term growth rates used to determine the value of the cash-generating units beyond the forecast period were established considering the distinct characteristics of the entities and the markets in which they operate. Forecasts were prepared taking into account the specific characteristics of the relevant market and product category, based on past experience relating to the markets concerned. The cash flow projections with business rationale cover a period of five years, i.e. the financial years from April 1st 2023 to March 31st 2028.

Based on market projections, the following increase in sales was assumed for the CGU: 73% in the first year of the forecast, 25% in the second year, and 33% and 37% in subsequent years. The recoverable amount of the Elmech-ASE S.A. CGU was determined using the forecast value in use, which was calculated based on a cash flow projections derived from the five-year financial budgets approved by the senior management. The weighted average cost of capital of 10.73% was used to forecast the cash flows. Cash flows beyond the five-year period were estimated using a growth rate of 0.816%.

The impairment test did not indicate any need for recognising impairment losses on shares held in the company.

Sensitivity to changes of assumptions

The current recoverable amount of the Elmech-ASE S.A. CGU exceeds its carrying amount by PLN 29.8m.

The impact of changes in the key assumptions of the tests on the value of Elmech-ASE S.A. as at March 31st 2023 is presented below.

	<u>Increase</u>	<u>Decrease</u>
	PLN thousand	PLN thousand
Change in WACC +/- 1 bps.	0	0
Change in sales by +/- 50%	0	(4,988)

Loans to subsidiaries

Loans to subsidiaries presented in other financial assets comprise loans provided to Mercor Czech Republic s.r.o. and Mercor Slovakia s.r.o. for the repurchase of receivables unrelated to the fire separation business from Hasil as and Hasil sro, i.e., entities that were divested from the "MERCOR" S.A. Group. The amount due under these loans was PLN 1,643 thousand as of March 31st 2023. The Company also granted DFM Doors Sp. z o.o. a long-term loan in the form of a limit of up to PLN 14,000 thousand to finance current operations. The amount of the loan used, including capitalized interest as of March 31st 2023, was PLN 11,555 thousand.

In addition, the Company advanced other loans to its subsidiaries and jointly controlled entities to finance their business development needs, namely MCR SOL ENERGY Sp. z o.o., Mercor Fire Protection UK, MCR TECH-LAB Sp. z o.o., Mercor Centrum Usług Wspólnych Sp. z o.o. and Elmech-ASE Sp. z o.o. The total balance of receivables under these loans as at March 31st 2023 was PLN 10,336 thousand.

NOTE 15 – SECURITY DEPOSITS RECEIVABLE

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Long-term security deposits receivable	3,121	3,458
Short-term security deposits receivable	3,925	4,549
Impairment losses	(1,712)	(1,501)
	<u>5,334</u>	<u>6,506</u>

Customers retain deposits that are a contractually defined percentage of invoiced services. The percentage is usually between 5% and 10% of the contract value. Depending on the terms of the contracts, investors retain these deposits for a period of 6 to 120 months.

Revenue in the portion covered by the deposit retained by the customer is recognised at fair value, in accordance with revenue recognition principles. The discount resulting from the recognition of fair value is recognized as finance income, using the amortised cost method.

NOTE 16 – INVENTORIES

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Materials	24,774	27,541
Work in progress	7,258	3,902
Finished goods	18,435	11,274
Write-downs	(10,240)	(3,649)
	<u>40,227</u>	<u>39,068</u>

The inventories are measured in accordance with the principles outlined in Note 2. Recognised inventory write-downs and reversals are recognized as an expense in the statement of profit or loss, as part of cost of sales. In the reporting period, the Company used an inventory write-down of PLN 713 thousand due to the sale or liquidation of inventories that had lost their economic usefulness. The amount of inventory write-downs recognised in the reporting period was PLN 7,082 thousand.

The Company's inventories are pledged as security for its borrowings. The table below presents the carrying amount of inventories that are pledged as security under an assignment agreement:

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Value of inventories pledged as security for bank credit	27,862	33,282
	<u>27,862</u>	<u>33,282</u>

NOTE 17 – TRADE AND OTHER RECEIVABLES

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Trade receivables from related entities	15,918	20,004
Trade receivables from other entities	53,687	50,936
Dividends receivable	223	116
Prepayments made for deliveries	231	317
Other receivables	2	-
Write-downs	(5,886)	(3,836)
	<u>64,175</u>	<u>67,537</u>

Trade receivables are non-interest-bearing and typically mature in a period from 14 to 60 days. The fair value of receivables does not differ materially from their carrying amounts.

Trade receivables were insured during the reporting period. Seventy percent of receivables generated during the financial year were secured using this method, although the insurance did not cover receivables from related parties.

Change in impairment losses on receivables

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
At beginning of period	3,836	4,058
Write-downs expensed	2,680	343
Impairment losses reversed	620	431
Write-downs used	(10)	(134)
At end of the period	5,886	3,836

NOTE 18 – OTHER CURRENT ASSETS

	<u>End of period Mar 31 2023</u>	<u>End of period Mar 31 2022</u>
	PLN thousand	PLN thousand
Accrued expenses represent the cost of future periods.	2,242	1,714
	<u>2,242</u>	<u>1,714</u>

Other current assets include expenses related to future periods. In particular, these are upfront service fees incurred. These assets are charged to operating expenses over time or in proportion to the amount of services performed, depending on their nature.

NOTE 19 – CASH AND CASH EQUIVALENTS

	<u>End of period Mar 31 2023</u>	<u>End of period Mar 31 2022</u>
	PLN thousand	PLN thousand
Cash in hand and at banks	126	1,389
	<u>126</u>	<u>1,389</u>

Cash at banks earns interest at variable rates linked to O/N deposit rates. Short-term deposits are placed for various periods, usually from one day to three months, depending on the Company's immediate cash requirement, and earn interest at rates agreed with the bank.

The fair value of cash and cash equivalents is equal to their net carrying amount. Except for funds held in separate VAT accounts, there are no restrictions on the use of cash and cash equivalents. Cash held in VAT accounts is not recognised as restricted cash.

NOTE 20 – EQUITY

Share capital

Detailed information on individual series of shares comprising the Company's share capital as at March 31st 2023 is presented below:

Series	Number of shares	Par value	Date of registration	Dividend right as of	Method of payment for shares	Type of shares
AA	12,454,544	3,113,636.00	May 17 2007	May 17 2007	Cash/in-kind contribution*	ordinary
BB	1,780,488	445,122.00	Aug 9 2007	Aug 9 2007	Cash	ordinary
CC	1,423,503	355,875.75	Sep 15 2008	Sep 15 2008	Cash/in-kind contribution	ordinary
	<u>15,658,535</u>	<u>3,914,633.75</u>				

Par value per share, PLN:

0.25

* The share capital of MERCOR S.A. was created as a result of the transformation of PUH MERCOR Sp. z o.o.'s share capital following a change in the legal form on September 21st 2004; The share capital of PUH MERCOR Sp. z o.o. was paid in cash up to PLN 100.00, with the remaining PLN 2,999,900.00 paid for with an in-kind contribution in the form of shares in MERCOR-Pro Sp. z o.o., in accordance with notarial deed rep. A no. 6477/99 dated July 9th 1999; shares with a par value of PLN 113,636.00 were paid in cash.

As at March 31st 2023, there were no restrictions attached to the Company shares.

By resolution of the Extraordinary General Meeting on January 26th 2023, 89,258 of Series BB shares of the Company, representing 0.57% of its share capital, were cancelled. The cancellation of the shares and reduction of the Company's share capital to PLN 3,892,319.25 was registered by the District Court for Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, on June 2nd 2023.

The Company's shareholding structure as at March 31st 2023 was as follows:

Shareholder	Mar 31 2023		Mar 31 2022	
	Number of shares	%	Number of shares	%
Permag Sp. z o.o.	4,102,994	26.20%	4,102,994	26.20%
Bangtino Limited	3,675,502	23.47%	3,925,502	25.07%
Nationale Nederlanden Otworthy Fundusz Emerytalny	1,454,465	9.29%	1,566,821	10.01%
Otworthy Fundusz Emerytalny PZU Złota Jesień	1,452,947	9.28%	1,452,000	9.27%
N50 Cyprus Limited	1,250,854	7.99%	1,000,853	6.39%
PTE Allianz Polska S.A.	791,018	5.05%	791,018	5.05%
Other shareholders	2,930,755	18.72%	2,819,347	18.01%
	<u>15,658,535</u>	<u>100.00%</u>	<u>15,658,535</u>	<u>100.00%</u>

The ownership interest presented above were the same as respective voting interests in the Company.

As at the date of these consolidated financial statements, shareholders holding 5% or more of total voting rights in the Company were as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>%</u>
Permag Sp. z o.o.	4,102,994	26.35%
Bangtino Limited	3,675,502	23.61%
Nationale Nederlanden Otwarty Fundusz Emerytalny	1,454,465	9.34%
Otwarty Fundusz Emerytalny PZU Złota Jesień	1,452,947	9.33%
N50 Cyprus Limited	1,250,854	8.03%
PTE Allianz Polska S.A.	791,018	5.08%

Capital reserves

The Company's capital reserves, amounting to PLN 857 thousand, derived from profits earned in previous years, have been allocated for business development purposes.

In previous financial years, the Company recognized capital reserves of PLN 23,500 thousand, allocated for the purchase of own shares. By way of a resolution of the Annual General Meeting of September 13th 2021, the amount of the reserve allocated to the buyback was reduced by PLN 16,255 thousand, to PLN 7,245 thousand.

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. Until March 31st 2023, a total of 114,432 shares were bought back for an aggregate purchase price of PLN 1,506,660.77. Treasury shares held by the Company as at March 31st 2023 represented 0.731% of the Company's share capital. The buyback programme is being carried out within the limit of the PLN 7,245 thousand capital reserve created for that purpose from retained earnings. The capital reserve was created pursuant to a resolution of the Extraordinary General Meeting on June 30th 2020. Resolutions of the Extraordinary General Meeting were published in Current Report No. 16/2020 of July 1st 2020. In accordance with the rules of the Share Buyback Programme approved on March 16th 2021, the Company may repurchase up to 940,000 of its own shares. The purchase price may not be less than PLN 0.25 per share and may not exceed the amount of PLN 25.00 per share. The programme will continue in operation no later than May 31st 2025, or until such time as the allocated funds for its execution have been fully expended, whichever occurs first.

Retained earnings

Retained earnings from previous years fully comprise profits retained by shareholder decision. Pursuant to Art. 396.1 of the Commercial Companies Code, at least 8% of profit for the financial year should be contributed to statutory reserve funds held for the purpose of covering losses, until the funds reach at least one-third of the Company's share capital.

The structure of retained earnings from previous years is as follows:

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Retained earnings from previous years	28,382	(3,555)
Dissolution of reserve capital	-	16,255
Dividend declared	(9,865)	(8,893)
Net profit for reporting period	23,929	24,575
	42,446	28,382

NOTE 21 – BORROWINGS

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Borrowings from banks	70,023	78,955
Borrowings from related entities	2,800	2,800
	72,823	81,755
including:		
Non-current portion	69,959	77,290
Borrowings from banks	67,159	74,490
Borrowings from related entities	2,800	2,800
Current portion	2,864	4,465
Borrowings from banks	2,864	4,465
Borrowings from related entities	-	-
Borrowings maturing:		
within 1 year	2,864	4,465
in 2 to 3 years	64,644	69,498
in 3 to 5 years	5,315	7,792
	72,823	81,755

The currency structure of the Company's borrowings is presented below.

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Borrowings in PLN	34,243	81,755
Borrowings in EUR	38,580	-
	<u>72,823</u>	<u>81,755</u>

The table below presents cash movements in the statement of cash flows.

	Mar 31 2022	Cash flows	Non-cash changes			Mar 31 2023
			Increases and reclassificati ons	Interest	Changes in fair value	
Long-term borrowings	77,290	(12,210)	-	4,879	-	69,959
Short-term borrowings	4,465	(1,804)	-	203	-	2,864
Lease liabilities	11,665	(9,096)	2,882	286	-	5,737

The table below presents the borrowings and material terms of credit facility agreements. The Company complied with all the terms of its credit facility agreements.

Borrowings as at Mar 31 2023

Company name and legal form	Facility type	Principal amount as per agreement		Outstanding amount (PLN thousand)		Interest rate	Maturity date	Security
		(PLN thousand)	currency	Current portion	Non-current portion			
BNP Paribas Bank Polska S.A.	Overdraft facility/working capital facility	42,880	PLN	-	37,716	1M WIBOR + margin	Nov 30 2024	assignment of receivables, registered pledge on inventory and fixed assets with assignment of rights under insurance policy, blank promissory note, power of attorney to the account held with the bank, joint contractual mortgage on real estate in Miroslaw
BNP Paribas Bank Polska S.A.	Investment facility (acquisition of shares in Dunamenti Túzvédelem Zrt)	17,000	PLN	305	-	1M WIBOR + margin	Apr 30 2023	power of attorney to bank account, blank promissory note, joint contractual mortgage on real estate with assignment of rights under the insurance policy, pledge on Dunamenti Túzvédelem Zrt
BNP Paribas Bank Polska S.A.	Investment credit facility	10,000	PLN	1,232	3,980	1W WIBOR + margin	Dec 5 2026	registered pledge over property, plant and equipment with assignment of rights to insurance policy, blank promissory note, power of attorney to bank account
Credit Agricole Bank Polska S.A.	Overdraft facility	28,560	PLN	-	8,497	O/N WIBOR + margin	Oct 31 2014	assignment of receivables, registered pledge over inventories and property, plant and equipment, assignment of rights under insurance policy, notarised submission to enforcement, joint contractual mortgage over real property in Miroslaw
Santander Bank Polska S.A.	Overdraft facility	28,560	PLN	-	12,977	O/N WIBOR + margin	Nov 28 2024	assignment of receivables, registered pledge over inventories and property, plant and equipment, assignment of rights under insurance policy, joint contractual mortgage over real property in Miroslaw, blank promissory note
Santander Bank Polska S.A.	Investment credit facility	10,000	PLN	1,327	3,989	1M WIBOR + margin	Feb 28 2027	registered pledge on property, plant and equipment (security to be established before release of subsequent tranches), notarised submission to enforcement
MHD1 sp. z o.o.	Loan	2,800	PLN	-	2,800	3M WIBOR + margin	Jun 20 2026	no security
Total borrowings				2,864	69,959			

Borrowings as at Mar 31 2022

Company name and legal form	Facility type	Principal amount as per agreement		Outstanding amount (PLN thousand)		Interest rate	Maturity date	Security
		(PLN thousand)	currency	Current portion	Non-current portion			
BNP Paribas Bank Polska S.A.	Overdraft facility/working capital facility	32,160	PLN	-	27,155	1W WIBOR + margin	Nov 30 2024	assignment of receivables, registered pledge on inventory and fixed assets with assignment of rights under insurance policy, blank promissory note, power of attorney to the account held with the bank, joint contractual mortgage on real estate in Miroslaw
BNP Paribas Bank Polska S.A.	Investment facility (acquisition of shares in Dunamenti Túzvédalem Zrt)	17,000	PLN	2,645	199	1M WIBOR + margin	Apr 30 2023	power of attorney to bank account, blank promissory note, joint contractual mortgage on real estate with assignment of rights under the insurance policy, pledge on Dunamenti Túzvédalem Zrt
BNP Paribas Bank Polska S.A.	Investment credit facility	10,000	PLN	1,188	5,175	1W WIBOR + margin	Dec 5 2026	registered pledge over property, plant and equipment with assignment of rights to insurance policy, blank promissory note, power of attorney to bank account
Credit Agricole Bank Polska S.A.	Overdraft facility	21,420	PLN	-	16,086	O/N WIBOR + margin	Oct 31 2023	assignment of receivables, registered pledge over inventories and property, plant and equipment, assignment of rights under insurance policy, notarised submission to enforcement, joint contractual mortgage over real property in Miroslaw
mBank S.A.	Working capital facility	10,420	PLN	-	10,420	1M WIBOR + margin	Oct 28 2023	assignment of receivables, registered pledge over inventories and property, plant and equipment, assignment of rights under insurance policy, joint contractual mortgage over real property in Miroslaw, blank promissory note
mBank S.A.	Overdraft facility	11,000	PLN	-	10,507	O/N WIBOR + margin	Oct 28 2023	assignment of receivables, registered pledge over inventories and property, plant and equipment, assignment of rights under insurance policy, joint contractual mortgage over real property in Miroslaw, blank promissory note
Santander Bank Polska S.A.	Investment credit facility	10,000	PLN	632	4,948	1M WIBOR + margin	Feb 28 2027	registered pledge on property, plant and equipment (security to be established before release of subsequent tranches), notarised submission to enforcement
MHD1 sp. z o.o.	Loan	2,800	PLN	-	2,800	3M WIBOR + margin	Jun 20 2026	no security
Total borrowings				4,465	77,290			

NOTE 22 – PROVISIONS FOR LIABILITIES

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Provisions for retirement severance payments	566	566
Provision for warranty repairs	3,220	2,851
	3,786	3,417
including:		
<i>Non-current portion</i>		
Provisions for retirement severance payments	555	555
	555	555
<i>Current portion</i>		
Provisions for employee benefits	11	11
Provision for warranty repairs	3,220	2,851
	3,231	2,862

The Company typically provides a 24-month warranty for its products. Therefore, because the change in time value of money does not have a material impact on the estimate of provisions for costs of warranty works, these provisions are not discounted. Provisions are estimated at each reporting date based on the historical share of warranty repairs related to previous periods. The amount of the provision is calculated on the basis of the prorated share of warranty repairs in revenue, taking into account revenue growth.

Employees are entitled to retirement severance payments in accordance with Article 92¹ of the Labour Code. This entitlement corresponds to one-month remuneration based on the employee's salary on the date they become eligible for severance pay. These provisions are estimated using actuarial methods. Material actuarial assumptions for each reporting date were as follows:

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
Discount rate	6.1%	2.5%
Wages growth rate	6.0%	3.5%
Wages growth rate for future years	6.2%	4.2%

Change in provisions

	<u>Provision for</u> <u>employee</u> <u>benefit</u> <u>obligations</u>	<u>Provision for</u> <u>warranty</u> <u>repairs</u>
	PLN thousand	PLN thousand
Provisions as at Mar 31 2022	566	2,851
Provisions expensed	-	369
Use of provisions recognised in prior periods	-	-
Provisions as at Mar 31 2023	566	3,220

NOTE 23 – TRADE AND OTHER PAYABLES

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Trade payables to related entities	1,442	1,133
Trade payables to other entities	46,640	43,577
Taxes and social security payable	862	4,158
Salaries and wages payable	1	47
Prepayments received for deliveries	2,728	1,395
Other liabilities and accruals, including:	14,034	12,289
accrued bonuses and overtime pay	10,610	8,878
accrued holiday entitlements	1,466	1,466
unbilled expenses	1,531	1,068
other liabilities	427	877
	65,707	62,599
including:		
non-current portion	-	-
current portion	65,707	62,599
	65,707	62,599

Trade payables are non-interest-bearing and typically mature in a period from 7 to 90 days. The Company is not dependent on a small group of suppliers.

NOTE 24 – DEFERRED INCOME

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Gain on disposal of property, plant and equipment	-	1,154
Grants for development projects	3,815	3,815
	3,815	4,969
including:		
Non-current portion	3,261	3,729
Current portion	554	1,240
	3,815	4,969

The Company secured co-financing for development expenditure under an agreement signed in 2016 with the National Centre for Research and Development to co-finance a project executed as part of the Smart Growth operational programme. The total amount of co-financing that can be obtained during the five-year term of the agreement is PLN 10,319 thousand.

As part of the grant, the Company received PLN 6,428 thousand, including PLN 556 thousand in the reporting period. As at the date of these financial statements, the Company complied with all the terms and conditions of the agreement.

NOTE 25 – LEASES

The Company leases the built-up real estate of the production plant, machinery and equipment, means of transport, as well as office space and parking lots. The lease term for the real estate is 15 years (as of January 2009), for machinery and equipment it is from 3 to 7 years, for means of transport the term is from 3 to 5 years. Office space is leased for periods from 3 to 5 years. In addition, the Company uses land held in perpetual usufruct.

Lease contracts for the means of transport did not include initial payment. Most leases contain purchase option clauses, with the purchase price set at 0.1% to 1% of the initial value of the leased asset.

The carrying amount of the right-of-use assets was as follows:

	<u>As at Apr 1 2022</u>	<u>New lease contracts</u>	<u>Contract modifications</u>	<u>Transfer to property, plant and equipment</u>	<u>Depreciation for period</u>	<u>As at Mar 31 2023</u>
Usufruct of land	349	-	-	-	43	306
Land	3,000	-	-	(3,000)	-	-
Buildings and structures	15,256	846	-	(12,210)	1,464	2,428
Machinery and equipment	7,281	1,376	-	(5,825)	808	2,024
Vehicles	1,838	660	50	-	1,103	1,445
Other	832	-	-	-	161	671
Total	28,556	2,882	50	(21,035)	3,579	6,874

	<u>As at Apr 1 2021</u>	<u>New lease contracts</u>	<u>Contract modifications</u>	<u>Transfer to property, plant and equipment</u>	<u>Depreciation for period</u>	<u>As at Mar 31 2022</u>
Usufruct of land	393	-	-	-	44	349
Land	3,000	-	-	-	-	3,000
Buildings and structures	14,245	2,296	(26)	-	1,259	15,256
Machinery and equipment	11,453	-	-	(3,463)	709	7,281
Vehicles	2,656	423	-	(250)	991	1,838
Other	1,014	-	-	(19)	163	832
Total	32,761	2,719	(26)	(3,732)	3,166	28,556

Change in right-of-use liabilities:

	<u>As at Apr 1</u> <u>2022</u>	<u>New lease</u> <u>contracts</u>	<u>Contract</u> <u>modifications</u>	<u>Lease</u> <u>payments</u>	<u>Interest</u>	<u>As at Mar</u> <u>31 2023</u>
Usufruct of land	479	-	-	61	15	433
Land	1,211	-	-	1,211	-	-
Buildings and structures	6,058	846	-	4,552	140	2,492
Machinery and equipment	1,740	1,376	-	1,867	64	1,313
Vehicles	1,889	660	50	1,189	66	1,476
Other	288	-	-	266	1	23
Total	11,665	2,882	50	9,146	286	5,737

	<u>As at Apr 1</u> <u>2021</u>	<u>New lease</u> <u>contracts</u>	<u>Contract</u> <u>modifications</u>	<u>Lease</u> <u>payments</u>	<u>Interest</u>	<u>As at Mar</u> <u>31 2022</u>
Usufruct of land	523	-	-	61	17	479
Land	1,435	-	-	477	253	1,211
Buildings and structures	5,046	2,295	(26)	1,493	236	6,058
Machinery and equipment	3,955	-	-	2,215	-	1,740
Vehicles	2,478	423	-	1,083	71	1,889
Other	552	-	-	264	-	288
Total	13,989	2,718	(26)	5,593	577	11,665

NOTE 26 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets

The Company is currently in dispute with tax authorities as a result of inspections carried out by the Gdańsk Province Tax Office concerning the settlement of corporate income tax for the tax year of April 1st 2012 to March 31st 2013 (see Note 10 to these financial statements.) Pursuant to the Supreme Administrative Court's judgment, the Company's case was re-examined and further proceedings were conducted with respect to the Company. In February 2023, the Provincial Administrative Court in Gdańsk accepted the Company's cassation complaints against the decision of the Director of the Tax Administration Chamber in Gdańsk. Currently, the Company is awaiting further resolution of the pending proceedings. In the event that subsequent proceedings concerning the Company are favourably resolved, the Company will become eligible for the reimbursement of advance payments related to the corporate income tax for the tax year 2012/2013, totalling PLN 5,433 thousand, along with the accrued interest on the paid amounts.

Contingent liabilities

The Company has no contingent liabilities.

The Company was in dispute with tax authorities as a result of inspections carried out by the Gdańsk Province Tax Office concerning the settlement of corporate income tax for the tax year of April 1st 2012 to March 31st 2013 (see Note 10 to these financial statements.) Pursuant to the Supreme Administrative Court's judgment, the Company's case was re-examined and further proceedings were conducted with respect to the Company. In September 2022, the Director of the Tax Administration Chamber in Gdańsk revoked the decision of the Head of the Pomeranian Customs and Excise Office in Gdynia dated April 5th 2022. The Director of the Tax Administration Chamber in Gdańsk stated that the Company's tax liability for the period became statute-barred. It therefore vacated the decision of the first instance authority and discontinued the proceedings.

NOTE 27 – RELATED PARTIES

Identification of related parties

The related parties of the Company are listed below.

1. Entities in which the Company held equity interests as at March 31st 2023:

- TOB Mercor Ukraina Sp. z o.o. with its registered office in Drohovich (Ukraine), a subsidiary – MERCOR S.A. holds 55% of the share capital,
- Mercor Fire Protection Systems s.r.l. of Bucharest (Romania), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Tecresa Protección Pasiva S. L. of Madrid (Spain), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- OOO Mercor Proof of Moscow (Russian Federation), a subsidiary – MERCOR S.A. holds 55% of the share capital,
- MHD1 Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor HD Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Czech Republic s.r.o. of Ostrawie (Czech Republic), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Slovakia s.r.o. of Bratislava (Slovakia), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Dunamenti Tűzvédelem Zrt of Good (Hungary), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Silboard Sp. z o.o. (formerly Dunamenti Ochrona Przeciwpozarowa Sp. z o.o.) of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Dunamenti CZ s.r.o. of Prague (Czech Republic), a subsidiary of Dunamenti Tűzvédelem Zrt – MERCOR S.A. holds 100% of the share capital,
- Dunamenti s.r.o. of Kolarovie (Slovakia), a subsidiary of Dunamenti Tűzvédelem Zrt – MERCOR S.A. holds 100% of the share capital,
- TOO MRK of Ałmaatu (Kazakhstan), a subsidiary of OOO Mercor Proof – MERCOR S.A. holds 55% of the share capital,
- Unitarne Przedsiębiorstwo Produkcyjne MRKP Systemu of Minsk (Belarus), a subsidiary of OOO Mercor Proof – MERCOR S.A. 55% of the share capital,

- DFM Doors Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 82% of the share capital,
- MCR SOL ENERGY Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Mercor Fire Protection UK Ltd of Salford (United Kingdom), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- MCR TECH-LAB Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 51% of the share capital,
- Mercor Centrum Usług Wspólna ch Sp. z o.o. of Gdańsk (Poland), a subsidiary – MERCOR S.A. holds 100% of the share capital,
- Elmech-ASE S.A. of Pruszcz Gdański (Poland), a jointly controlled entity – MERCOR S.A. holds 50% of the share capital.

2. Major shareholders

For information on major shareholders, see Note 20 to these financial statements.

3. Other related parties

Other related parties of the Company include members of its management and supervisory bodies (including directors), as well as individuals who are close family members of such persons (i.e., life partner, children, children of the life partner, and dependents of the person or their life partner), and other business entities where members of the Management Board of the Company hold management positions or are shareholders.

The Company does not have post-employment benefit plans for its employees.

Transactions with entities in which the Company holds equity interests

Sales to and purchases from related parties are transacted at normal market prices. Outstanding payables and receivables at the end of a financial year are not hedged and are settled in cash. Receivables from related parties are not secured by any guarantees provided or received by the Company.

Mutual transactions with entities in which the Company held, directly and indirectly, equity interests in the periods covered by these financial statements included:

- trade transactions involving purchase and sale of goods, materials, services, and items of property, plant and equipment,
- sureties provided as security for bank borrowings,
- loans and borrowings, and
- dividends paid.

The value and substance of the transactions are presented in the table below:

<u>Related party</u>	<u>Financial year</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Interest on loans</u>	<u>Interest on borrowings</u>	<u>Income on dividends</u>	<u>Sale of financial assets</u>
Tecresa Protección Pasiva	2022/2023 2021/2022	12,230 8,935	5,995 5,006	- -	- -	1,109 -	- -
Mercor Fire Protection Systems srl	2022/2023 2021/2022	3,692 5,469	93 48	- -	- -	699 -	- -
TOB Mercor Ukraina	2022/2023 2021/2022	1,139 2,635	4,025 3,783	- -	- -	- 457	- -
Mercor Czech Republic s.r.o.	2022/2023 2021/2022	8,539 10,799	46 8	- -	- -	757 230	- -
Mercor Slovakia s.r.o.	2022/2023 2021/2022	7,015 8,768	9 5	- -	- -	- -	- -
Mercor Dunamenti Tűzvédelem Zrt	2022/2023 2021/2022	8,414 4,599	1,846 1,598	- -	- -	3,350 5,009	- -
Mercor Silboard Sp. z o.o.	2022/2023 2021/2022	1 1	- -	- -	- -	- -	- -
DFM Doors sp. z o.o.	2022/2023 2021/2022	10,688 12,411	48 38	1,246 435	- -	- -	- -
MHD1 sp. z o.o.	2022/2023 2021/2022	1 1	- -	- -	246 89	- -	- 900
Mercor HD Sp. z o.o.	2022/2023 2021/2022	1 1	- -	- -	- -	- -	- -
OOO Mercor-Proof	2022/2023 2021/2022	- 3,723	- -	- -	- -	368 1,554	- -
Mercor Fire Protection UK Ltd	2022/2023 2021/2022	4,158 414	203 10	- -	- -	- -	- -
MCR SOL ENERGY sp. z o.o.	2022/2023 2021/2022	1 1	- -	317 54	- -	- -	- -
MERCOR CUW Sp. z o.o.	2022/2023 2021/2022	7 -	485 -	- -	- -	- -	- -
MCR TECH LAB sp. z o.o.	2022/2023 2021/2022	- -	49 -	- -	- -	- -	- -
Elmech-ASE S.A.	2022/2023 2021/2022	23 5	- -	281 26	- -	- -	- -
	2022/2023 2021/2022	55,909 57,762	12,799 10,496	1,844 515	246 89	6,283 7,250	- 900

<u>Related party</u>		<u>Trade receivables from related parties</u>	<u>Trade payables to related parties</u>	<u>Receivables under loans</u>	<u>Liabilities under borrowings</u>	<u>Dividends receivable</u>
Tecresa Protección Pasiva S.L.	Mar 31 2023	3,025	531	-	-	-
	Mar 31 2022	1,846	598	-	-	-
TOB Mercor Ukraina sp. z o.o.	Mar 31 2023	178	501	-	-	-
	Mar 31 2022	956	509	-	-	-
Mercor Fire Protection Systems srl	Mar 31 2023	469	136	-	-	223
	Mar 31 2022	157	42	-	-	-
MHD1 sp. z o.o.	Mar 31 2023	-	-	-	2,800	-
	Mar 31 2022	-	-	-	2,800	-
DFM Doors sp. z o.o.	Mar 31 2023	4,020	-	11,555	-	-
	Mar 31 2022	7,518	-	11,309	-	-
OOO Mercor-Proof	Mar 31 2023	1,718	-	-	-	-
	Mar 31 2022	1,759	-	-	-	-
MCR SOL ENERGY sp. z o.o.	Mar 31 2023	-	-	4,670	-	-
	Mar 31 2022	-	-	2,554	-	-
Mercor Dunamenti Tűzvédelem Zrt	Mar 31 2023	2,243	164	-	-	-
	Mar 31 2022	1,627	-	-	-	-
Mercor Czech Republic s.r.o.	Mar 31 2023	1,811	16	1,072	-	-
	Mar 31 2022	4,160	-	1,027	-	116
Mercor Slovakia sro	Mar 31 2023	796	-	571	-	-
	Mar 31 2022	1,928	-	652	-	-
Mercor Fire Protection UK Ltd	Mar 31 2023	1,627	94	1,266	-	-
	Mar 31 2022	117	-	1,150	-	-
Mercor CUW Sp. z o.o.	Mar 31 2023	9	-	600	-	-
	Mar 31 2022	-	-	-	-	-
MCR TECH-LAB Sp. z o.o.	Mar 31 2023	-	-	93	-	-
	Mar 31 2022	-	-	-	-	-
Elmech-ASE S.A.	Mar 31 2023	22	-	3,707	-	-
	Mar 31 2022	7	-	2,126	-	-
	Mar 31 2023	15,918	1,442	23,534	2,800	223
	Mar 31 2022	20,075	1,149	18,818	2,800	116

Guarantees and sureties provided

In the financial year 2022/2023, MERCOR S.A. provided performance bonds and defects liability bonds (under trade contracts).

In October 2018, the Company issued a surety for future debt of its subsidiary DFM Doors Sp. z o.o. in connection with the subsidiary executing an amendment to the Criedt Limit Agreement with Raiffeisen Bank Polska S.A. (now BNP Paribas Bank Polska S.A.). The surety of up to PLN 6 million was valid until December 2020. Under an agreement of December 20th 2020, the surety was converted into the Company's accession to the debt as a joint and several debtor, and under an amendment to the credit agreement, the term of the loan was extended to November 30th 2023.

In connection with the execution by DFM Doors Sp. z o.o. of a PLN 2 million overdraft facility agreement with Santander Bank Polska S.A., the Company provided a surety that remains valid until November 2023.

In addition, in previous years, the Company provided guarantees to support DFM Doors Sp. z o.o.'s lease contracts with a total value of PLN 1,291 thousand. The guarantees were valid until October 2022. In the previous financial year, the Company guaranteed a PLN 135 thousand lease contract for DFM Doors sp. z o.o.. The guarantee is valid until August 2025. In the current financial year, the Company also provided a surety as a support for a PLN 60 thousand lease contract executed by DFM Doors Sp. z o.o. The lease contract expires in June 2025.

The Company provided a surety, valid until March 31st 2023, to DFM Doors Sp. z o.o., for a credit limit of up to PLN 900 thousand granted as trade credit for the procurement of goods or services from BTH IMPORT STAL Sp. z o.o.

In October 2019, the Company provided a surety for DFM Doors sp. z o.o.'s liabilities to BP Europa SE. The surety was granted for up to PLN 10 thousand and was valid until December 31st 2022. The surety for the fuel credit card agreement between DFM Doors Sp. z o.o., BP Europe SE, and B2Mobility GmbH, granted in June 2022, is currently in force, with a value of up to PLN 10,000 and valid until June 2027.

The Company also provided a guarantee for an overdraft facility agreement between Santander Bank Polska S.A. and its subsidiary, MCR TECH LAB Sp. z o.o., amounting to PLN 2,000 thousand (valid until November 2023). Additionally, the Company guaranteed car lease contracts executed by MCR TECH LAB Sp. z o.o. under the General Agreement, and service agreements entered into under the General Service Agreement with Toyota Leasing Polska Sp. z o.o. The surety granted for these transactions, approximately PLN 143 thousand, remains valid until February 2028.

In addition, the Company acceded to ELMECH-ASE S.A.'s debt under the MultuLinia agreement with Santander Bank Polska S.A. The credit limit is PLN 6,000 thousand, with a financing period extending until December 2023.

As of the reporting date, the Company had not issued any other guarantees or sureties to its subsidiaries.

Transactions with shareholders and members of the Company's governing bodies

During the periods covered by these financial statements, the Company engaged in business transactions with members of the Company's Management Board, as well as members of the Company's governing bodies and their family members. The value and substance of the transactions are presented in the table below:

Related party	Year	Sales to	Purchases	Interest on	Receivables	Liabilities to
		related parties	from related parties	borrowings from related parties	from related parties	related parties
		PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Krempeć Krzysztof	2022/2023	11	-	-	3	-
	2021/2022	5	-	-	-	-
	2022/2023	11	-	-	3	-
	2021/2022	-	-	-	-	-

The transactions shown above involved the recharging of costs incurred.

Transactions with other related parties

Trade transactions

Transactions with other entities included transactions between the Company and Ambient-System Sp. z o.o., in which one of the current members of the Company's Supervisory Board holds 100% of shares, and with Periban Poland Sp. z o.o. spółka komandytowa and Jeździecki Klub Sportowy Barłomino Sp. z o.o. related to the Parent through one of its Management Board members. The value and substance of the transactions are presented in the table below:

Related party	Year	Sales to	Purchases	Receivables	Liabilities to
		related parties	from related parties	from related parties	related parties
		PLN thousand	PLN thousand	PLN thousand	PLN thousand
Ambient System Sp. z o.o.	2022/2023	6	-	-	-
	2021/2022	5	-	-	-
Permag Sp. z o.o.	2022/2023	-	-	-	-
	2021/2022	-	-	-	-
Periban Poland Sp. z o.o. Sp. k.	2022/2023	-	510	-	52
	2021/2022	-	309	-	107
Jeździecki Klub Sportowy Barłomino Sp. z o.o.	2022/2023	30	-	-	-
	2021/2022	48	-	-	-

Transactions shown above included sale and purchases of materials, goods and services.

Executive compensation

Executive compensation comprises remuneration provided to members of the Management Board, members of the Supervisory Board and senior officers of the Company. The remuneration provided to this group of personnel, categorised by type of benefits, is presented below.

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Short-term employee benefits	6,126	4,484
	<u>6,126</u>	<u>4,484</u>

The total short-term employee benefits presented above consist of remuneration paid under the employment contracts and for the functions performed. These benefits include:

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Management Board:	2,153	1,982
- Krzysztof Krempeć	667	764
- Jakub Lipiński	716	608
- Tomasz Kamiński	770	610
Supervisory Board	525	476
- Lucjan Myrda	104	95
- Tomasz Rutowski	70	63
- Marian Popinigis	71	63
- Eryk Karski	70	64
- Błażej Żmijewski	70	63
- Arkadiusz Kęsicki	70	64
- Pathy Timu Zenzo	70	64
Senior officers	3,448	2,026
	<u>6,126</u>	<u>4,484</u>

The Company has in place a bonus scheme for its management personnel wherein payments are contingent upon the attainment of predefined levels of specific economic indicators. As at March 31st 2023, the Parent recognised a liability for payments due to management personnel, as the target levels of the indicators were achieved by all employees covered under the bonus scheme.

NOTE 28 – FINANCIAL INSTRUMENTS

The main financial instruments used by the Company include borrowings (Note 21), cash and deposits (Note 19). The primary purpose of these financial instruments is twofold: firstly, to secure funding for the Company's ongoing operations, and secondly, to invest any cash surplus in an ad hoc manner. In addition to the aforementioned instruments, the Company also holds other financial instruments, such as trade receivables and payables (as detailed in Notes 17 and 23), as well as forward transactions. These financial instruments arise directly in the ordinary course of the Company's business.

The Company is exposed to several key risks stemming from its financial instruments, which include interest rate risk, currency risk, liquidity risk, and credit risk.

The interest rate risk arises mainly from non-current liabilities, including borrowings and lease liabilities. The nature of lease liabilities, due to the way they are recognised under IFRS 16, means that their entire balance can be treated as a fixed-rate liability. Therefore, with respect to these instruments, the Company is not directly exposed to interest rate risk.

Bank borrowings acquired by the Company bear interest at variable rates based on prevailing local interbank market conditions. Therefore, the Company is exposed to interest rate risk. As regards interest rate risk, the Company does not use any hedging instruments.

With respect to currency risk, the Company's exposure to this type of risk arises from sale or purchase transactions conducted in currencies other than its functional currency. The Company does not engage in any investment activities that would expose it to currency risk. Exchange differences arising from operating activities are recognized as either finance costs or income, as appropriate. The Company monitors currency risk for both on- and off-balance-sheet items. Due to the large share of foreign sales, the Company uses forward contracts to hedge against the currency risk.

The Company does not apply hedge accounting.

Throughout the reporting period, the Company managed credit risk by engaging in transactions with entities of strong credit standing. Cooperation with such entities is preceded by internal pre-verification procedures. Additionally, the Company's exposure to significant bad debt risk remains immaterial due to ongoing monitoring of accounts receivable balances and coverage provided by insurance. The Company's other financial assets, such as cash, deposits, and investments in other financial instruments, primarily expose the Company to the risk of counterparties' default. The maximum potential exposure arising from this risk is equivalent to the net carrying amount of the respective financial instrument.

The fair value of individual financial instruments does not differ from the net carrying amounts disclosed in the financial statements.

Net carrying amount of financial instruments

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Classes of financial instruments		
Retentions receivable under construction contracts	5,334	6,506
Loans	23,829	18,818
Contract assets	14,289	12,216
Trade and other receivables	64,175	67,537
Cash and cash equivalents	126	1,389
Forward hedging transactions	-	-
Total assets	107,753	106,466
Borrowings	72,823	81,755
Trade and other payables	48,082	44,710
Contract liabilities	2,240	2,861
Forward hedging transactions	21	156
Right-of-use liabilities	5,737	11,665
Total liabilities	128,903	141,147

<u>End of period Mar 31 2023</u>	fair value	carrying amount	measured at fair value through profit or loss	measured at fair value with changes to equity
	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)
Non-current assets	26,662	26,662	-	-
Trade and other receivables	26,662	26,662	-	-
Current assets	81,091	81,091	-	-
Trade and other receivables	80,965	80,965	-	-
Cash and cash equivalents	126	126	-	-
Derivative financial instruments	-	-	-	-
Total	107,753	107,753	-	-

End of period Mar 31 2023	fair value	carrying amount	measured at fair value through profit or loss.	measured at amortised cost	measured at fair value with changes to equity
	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)
Non-current liabilities	73,806	73,806	-	73,806	-
Borrowings	69,959	69,959	-	69,959	-
Right-of-use liabilities	3,847	3,847	-	3,847	-
Current liabilities	55,097	55,097	21	55,076	-
Borrowings	2,864	2,864	-	2,864	-
Trade payables and contract liabilities	50,322	50,322	-	50,322	-
Right-of-use liabilities	1,890	1,890	-	1,890	-
Derivative financial instruments	21	21	21	-	-
Total	128,903	128,903	21	128,882	-

Fair value of financial instruments

The carrying amount of the presented financial instruments does not differ from their fair value.

Derivatives (forwards) are recognised as assets when their valuation is positive. If the valuation of a given instrument is negative, the Company recognises such valuation as liabilities arising from the instrument. Valuation of financial instruments is disclosed on a separate basis, with no offsets of valuations of similar financial instruments.

Fair value hierarchy

The Company does not have any financial instruments at fair value through profit or loss for which there is an active market, and their fair value is determined based on market quotations (Level 1). For financial instruments held at fair value through profit or loss (Level 2), fair value is determined on the basis of other directly or indirectly observable data. Forward transactions are recognised based on valuations presented by banks that serve the Company.

As of the reporting date, the value of financial instruments measured at fair value through profit or loss, by level of the fair value hierarchy, was follows:

	Level 1		Level 2	
	<u>End of period</u>	<u>End of period</u>	<u>End of period</u>	<u>End of period</u>
	<u>Mar 31 2023</u>	<u>Mar 31 2022</u>	<u>Mar 31 2023</u>	<u>Mar 31 2022</u>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Forward hedging transactions	-	-	-	-
Total financial assets	-	-	-	-
Forward hedging transactions	-	-	21	156
Measurement of financial instruments	-	-	-	-
Total financial liabilities	-	-	21	156

There were no transfers between the levels during the reporting period.

Security for liabilities

The net carrying amount of assets pledged as collateral for repayment of liabilities as at the reporting date is presented below.

	<u>End of period</u>	<u>End of period</u>
	<u>Mar 31 2023</u>	<u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Property, plant and equipment	12,005	12,125
Trade receivables and security deposits	74,939	76,810
Inventories	27,862	33,282
Total assets pledged as security for liabilities	114,806	122,216

Net gains or losses on financial assets and liabilities

	<u>For period</u> <u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>For period</u> <u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Loans and receivables	(414)	1,292
- accrued interest on deposits	-	-
- accrued interest on late payment	85	750
- expected credit loss	(2,347)	27
- interest on loans	1,848	515
Cash and cash equivalents (exchange differences)	-	-
Positive valuation of derivative instruments – valuation as of the reporting date	-	-
Financial liabilities measured at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(6,980)	(2,469)
- exchange differences on liabilities	153	(4)
- interest on bank borrowings	(4,952)	(1,304)
- interest on loans	(246)	(89)
- interest on late payment	(49)	(13)
- interest on leases	(1,352)	(577)
- commission fees on bank borrowings and guarantees	(534)	(482)
Negative valuation of derivative instruments	(21)	(156)
Total	(7 415)	(1,333)

Assessment of currency risk and interest rate risk

The table below presents an analysis of the impact of changes in interest rates and exchange rates on profit or loss and equity (revaluation reserve). The analysis covers the financial components of the statement of financial position.

Methodology and assumptions

The Company has assets and liabilities denominated in foreign currencies.

Based on past historical developments and market predictions and forecasts, there is a realistic possibility of a +/-5% fluctuation in the PLN exchange rate against foreign currencies and a +/-50 basis point change in interest rates.

	Net carrying amount PLN thousand	Interest rate risk			Currency risk		
		+/-50 bps SP PLN/EUR		+5% (appreciation of PLN)	-5% (depreciation of PLN)		
		Effect on profit/(loss)	Effect on profit/(loss)	Effect on profit/(loss)	Changes in equity	Effect on profit/(loss)	Changes in equity
Financial assets							
Cash and cash equivalents	126	-	-	(5)	-	5	-
Trade and other receivables	64,175	-	-	(744)	-	744	-
Currency forward contracts	-	-	-	-	-	-	-
Effect on financial assets before tax	-	-	-	(749)	-	749	-
Tax (19%)	-	-	-	142	-	(142)	-
Effect on financial assets after tax	-	-	-	(607)	-	607	-
Financial liabilities							
Borrowings	72,823	(364)	364	1,929	-	(1,929)	-
Trade and other payables	65,707	-	-	702	-	(702)	-
Currency forward contracts	21	-	-	(1)	-	1	-
Effect on financial liabilities before tax	-	(364)	364	2,630	-	(2,630)	-
Tax (19%)	-	69	(69)	(500)	-	500	-
Effect on financial liabilities after tax	-	(295)	295	2,130	-	(2,130)	-
Total	-	(295)	295	1,523	-	(1,523)	-

Interest rate risk

As of March 31st 2023, the Company's net profit would be lower by PLN 295 thousand if interest rates in PLN and EUR were to increase by 50 basis points, assuming all other relevant parameters remained constant. This is a result of a relatively high level of liabilities under borrowings and a low balance of cash. If interest rates fell and all other factors remained constant, the net profit would be PLN 295 thousand higher.

Currency risk

As of March 31st 2023, the Company's net profit would be higher PLN 1,523 thousand if the Polish currency appreciated by 5% (mainly against EUR), assuming all other relevant parameters remained constant. This can be attributed to a substantial portion of debt financing (bank borrowings) being denominated in foreign currencies.

Currency risk management

The Company engages in transactions denominated in foreign currencies, and their share in total revenue has been consistently increasing over time. These transactions are subject to currency risk, and in response, the Company has adopted an active policy of hedging such exposures by entering into forward contracts. The volume of the forward transactions is proportional to the open currency position.

Below is presented the notional amount of the forward contracts denominated in the currency of the respective transactions as of the end of the reporting period:

	Assets		Liabilities	
	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)
EUR	-	-	-	-
RON	-	-	500	-
CZK	-	-	3,600	20,437

The table below presents undiscounted inflows and outflows from derivatives to be settled in subsequent periods.

The values are presented according to the rates of forward contracts held as of the end of the reporting period, which are the only foreign currency derivatives held by the Company.

	<u>Up to 1</u> <u>month</u>	<u>From 1 to 3</u> <u>months</u>	<u>Over 3</u> <u>months</u>
	PLN thousand	PLN thousand	PLN thousand
Maturity of currency forward contracts (inflows)	240	705	-
Maturity of currency forward contracts (outflows)	240	-	-

Liquidity risk

The Company monitors projected inflows and outflows related to its cash assets and liabilities on an ongoing basis. It also optimises cash flows at its associated companies. The Company uses overdraft facilities to ensure it satisfies its payment obligations in a timely manner. The Management Board of the Company reviews profitability and working capital ratios where there are negative deviations from levels assumed to be standard thresholds. Bank borrowings and right-of-use liabilities had the most significant impact on these indicators as of the reporting date.

The maturities of financial liabilities is presented below.

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Up to 1 month	16,164	15,803
From 1 to 3 months	28,780	34,477
From 3 months to 1 year	10,232	8,131
Over 1 year	73,706	82,580
Total liabilities	128,882	140,991

Credit risk

The Company mitigates the credit risk arising from its receivables by insuring them. The credit risk for insured receivables is 10% (i.e., up to the amount of the deductible). Furthermore, where allowed under the respective contracts, the Company extends bank guarantees to its customers for the duration of contract performance and post-sale warranty. This practice results in a reduction of the receivables retained by trading partners in the form of security deposits. Credit risk is further mitigated due to the diversified customer base of the Company. The level of receivables from any individual counterparty does not exceed 10% of the total receivables.

For trade receivables, the Company utilizes both a statistical method, estimating the amount of loss allowance based on a provision matrix, as well as a case-by-case approach. For each past due trade receivable where the case-by-case approach has been applied, management exercises professional judgment based on the aging of the receivables, analysis of the counterparty's financial condition, type of collateral, status of contract performance, and other relevant facts and circumstances.

The procedure for recognizing an additional loss allowance beyond the amounts determined directly from the provision matrix serves as an additional verification mechanism employed within the Company. This mechanism enables the Company to identify receivables with a higher risk of non-payment than statistical averages.

The amount of expected credit losses, calculated using both the matrix and case-by-case approach as of March 31st 2023, is presented in the table below. This analysis was performed separately for trade receivables and receivables from retained security deposits.

Trade receivables

	<u>Gross amount</u>	<u>Matrix approach</u>		<u>Case-by-case approach</u>	<u>Total loss allowance</u>	<u>Net amount</u>
	PLN thousand	<u>Weighted average ECL</u>	<u>Expected credit loss</u>	<u>Loss allowance</u>	PLN thousand	PLN thousand
not past due	45,069	0.32	142	-	142	44,927
past due up to 30 days	15,367	0.56	87	-	87	15,280
past due 31–60 days	1,609	2.87	46	-	46	1,563
past due 61–90 days	1,282	6.62	85	-	85	1,197
past due over 90 days	5,755	11.40	656	4,870	5,526	229
Total	69,082		1,016	4,870	5,886	63,196

Receivables under retained security deposits

	<u>Gross amount</u>	<u>Matrix approach</u>		<u>Case-by-case approach</u>	<u>Total loss allowance</u>	<u>Net amount</u>
	PLN thousand	<u>Weighted average ECL</u>	<u>Expected credit loss</u>	<u>Loss allowance</u>	PLN thousand	PLN thousand
not past due	5,841	13.76	807	-	807	5,034
past due up to 30 days	28	29.12	8	-	8	20
past due 31–60 days	123	31.90	39	-	39	84
past due 61–90 days	62	37.40	23	-	23	39
past due over 90 days	1,946	42.88	835	-	835	1,111
Total	8,000		1,712	-	1,712	6,288

Capital management

The Company has established a capital management policy with the primary objective of ensuring long-term liquidity. To achieve this objective, the Company seeks to maintain an optimal financing structure. The financing structure is monitored by analysing the ratio of debt to equity. Net debt includes bank borrowings and finance lease liabilities less cash and cash equivalents.

NOTE 29 – EVENTS AFTER THE REPORTING DATE

On January 26th 2023, the Extraordinary General Meeting of MERCOR S.A. passed a resolution to establish an incentive scheme, issue registered subscription warrants and conditionally increase the Company's share capital in connection with an issue of ordinary bearer shares. The Program is not yet implemented. No contract has yet been signed under the Program. The list of people covered by the Program has not yet been determined, and individual goals for Program participants are not known.

No other significant events, not already included in the financial statements, have taken place subsequent to the reporting date.

NOTE 30 – DIFFERENCES RELATIVE TO PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS

In the financial year, the Company did not correct any errors relating to previous periods.

The financial statements were authorised for issue by the Management Board on June 30th 2023.

Management Board:
MERCOR S.A.

Krzysztof Krempeć

Jakub Lipiński

Tomasz Kamiński

President of the Management Board

First Vice President of the Management Board

Member of the Management Board

Gdańsk, June 30th 2023