



## **MERCOR GROUP**

Consolidated 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

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NO TE	Apr 1 2022 – Mar 31 2023	Apr 1 2021 – Mar 31 2022
		PLN thousand	PLN thousand
Revenue	3	628,358	496,029
Cost of sales	4	472,164	379,218
<b>Gross profit</b>		<b>156,194</b>	<b>116,811</b>
Other income	5	2,976	3,631
Selling expenses	4	51,650	43,662
Administrative expenses	4	36,921	30,507
Other expenses	6	2,090	1,966
(Expected credit loss)/reversal of expected credit loss	28	242	(273)
<b>Operating profit</b>		<b>68,751</b>	<b>44,034</b>
Finance income	7	2,801	1,464
Finance costs	8	9,212	4,004
Share of profit (loss) of equity-accounted investees		(1,901)	(706)
<b>Profit before tax</b>		<b>60,439</b>	<b>40,788</b>
Income tax	9	13,221	8,309
<i>Net profit (loss) from continuing operations</i>		47,218	32,479
<b>Net profit</b>		<b>47,218</b>	<b>32,479</b>
<i>Attributable to:</i>			
<i>owners of the Parent</i>		41,695	29,789
<i>non-controlling interests</i>		5,523	2,690
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>		<b>(2,324)</b>	<b>(1,022)</b>
Translation reserve		(2,324)	(1,022)
<b>Items that will not be reclassified to profit or loss</b>		-	-
<b>Other net comprehensive income</b>		<b>(2,324)</b>	<b>(1,022)</b>
<b>Total comprehensive income</b>		<b>44,894</b>	<b>31,457</b>
<i>Attributable to:</i>			
<i>owners of the Parent</i>		39,469	29,208
<i>non-controlling interests</i>		5,425	2,249
<b>Earnings per share (PLN):</b>	10		
Basic		2.68	1.91
Diluted		2.68	1.91
<b>Earnings per share from continuing operations (PLN):</b>			
Basic		2.68	1.91
Diluted		2.68	1.91

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<u>NOT</u> <u>ES</u>	<u>End of period Mar 31</u> <u>2023</u>	<u>End of period Mar</u> <u>31 2022</u>
		PLN thousand	PLN thousand
<b>Non-current assets</b>			
Goodwill	11	51,613	51,566
Other intangible assets	11	26,866	27,280
Property, plant and equipment	12	79,424	57,857
Right-of-use assets	25	18,705	42,678
Deferred tax assets	9	4,446	5,090
Other financial assets		3,767	2,243
Long-term security deposits receivable	14	9,665	9,153
Equity-accounted investees	13	493	2,394
Other non-current assets	15	297	203
		<b>195,276</b>	<b>198,464</b>
<b>Current assets</b>			
Inventories	16	77,415	70,590
Financial assets		-	2
Trade and other receivables	17	109,696	111,766
Contract assets		27,913	21,214
Short-term security deposits receivable	14	4,344	4,859
Current tax assets		796	1,104
Forward contracts		-	-
Other current assets	18	2,970	2,775
Cash and cash equivalents	19	29,248	19,939
		<b>252,382</b>	<b>232,249</b>
<b>Total assets</b>		<b>447,658</b>	<b>430,713</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

	NOTES	End of period Mar 31 2023	End of period Mar 31 2022
		PLN thousand	PLN thousand
<b>Equity</b>			
Share capital		3,915	3,915
Share premium		106,202	106,202
Share buyback reserve		7,245	7,245
Merger reserve		857	857
Translation reserve		2,415	4,641
Treasury shares		(1,507)	(922)
Retained earnings		94,568	62,738
<b>Equity attributable to owners of the Parent</b>	20	<b>213,695</b>	<b>184,676</b>
Non-controlling interests		12,101	7,021
<b>Total equity</b>		<b>225,796</b>	<b>191,697</b>
<b>Non-current liabilities</b>			
Long-term borrowings	21	67,762	76,150
Deferred tax liability	9	51	-
Provisions for liabilities	22	555	555
Deferred income	24	3,465	3,953
Right-of-use liabilities	25	14,369	16,870
		<b>86,202</b>	<b>97,528</b>
<b>Current liabilities</b>			
Short-term borrowings	21	10,252	13,453
Trade and other payables	23	112,090	98,479
Contract liabilities		2,240	12,970
Income tax payable		2,393	1,570
Forward contracts		21	156
Provisions for liabilities	22	4,170	3,504
Deferred income	24	554	1,240
Right-of-use liabilities	25	3,940	10,116
		<b>135,660</b>	<b>141,488</b>
<b>Total liabilities</b>		<b>221,862</b>	<b>239,016</b>
<b>Total equity and liabilities</b>		<b>447,658</b>	<b>430,713</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Merger reserve</u>	<u>Share buyback reserve</u>	<u>Translation reserve</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Equity attributable to owners of the Parent</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>As at Apr 1 2021</b>	<b>3,915</b>	<b>106,202</b>	<b>857</b>	<b>23,500</b>	<b>5,222</b>	<b>(543)</b>	<b>25,587</b>	<b>164,740</b>	<b>6,603</b>	<b>171,343</b>
Net profit/(loss) for period	-	-	-	-	-	-	29,789	29,789	2,690	32,479
Other comprehensive income	-	-	-	-	(581)	-	-	(581)	(441)	(1,022)
<b>Comprehensive income for reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(581)</b>	<b>-</b>	<b>29,789</b>	<b>29,208</b>	<b>2,249</b>	<b>31,457</b>
Utilisation of capital reserve (buyback of shares)	-	-	-	(16,255)	-	-	16,255	-	-	-
Buyback of shares	-	-	-	-	-	(379)	-	(379)	-	(379)
Dividends declared or paid	-	-	-	-	-	-	(8,893)	(8,893)	(1,831)	(10,724)
<b>Transactions with owners recognised in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16,255)</b>	<b>-</b>	<b>(379)</b>	<b>7,362</b>	<b>(9,272)</b>	<b>(1,831)</b>	<b>(11,103)</b>
<b>Increase (decrease) in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16,255)</b>	<b>(581)</b>	<b>(379)</b>	<b>37,151</b>	<b>19,936</b>	<b>418</b>	<b>20,354</b>
<b>As at Mar 31 2022</b>	<b>3,915</b>	<b>106,202</b>	<b>857</b>	<b>7,245</b>	<b>4,641</b>	<b>(922)</b>	<b>62,738</b>	<b>184,676</b>	<b>7,021</b>	<b>191,697</b>



	<u>Share capital</u>	<u>Share premium</u>	<u>Merger reserve</u>	<u>Share buyback reserve</u>	<u>Translation reserve</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Equity attributable to owners of the Parent</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>As at Apr 1 2022</b>	<b>3,915</b>	<b>106,202</b>	<b>857</b>	<b>7,245</b>	<b>4,641</b>	<b>(922)</b>	<b>62,738</b>	<b>184,676</b>	<b>7,021</b>	<b>191,697</b>
Net profit/(loss) for period	-	-	-	-	-	-	41,695	41,695	5,523	47,218
Other comprehensive income	-	-	-	-	(2,226)	-	-	(2,226)	(98)	(2,324)
<b>Comprehensive income for reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,226)</b>	<b>-</b>	<b>41,695</b>	<b>39,469</b>	<b>5,425</b>	<b>44,894</b>
Utilisation of capital reserve (buyback of shares)	-	-	-	-	-	-	-	-	-	-
Buyback of shares	-	-	-	-	-	(585)	-	(585)	-	(585)
Dividends declared or paid	-	-	-	-	-	-	(9,865)	(9,865)	(345)	(10,210)
<b>Transactions with owners recognised in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(585)</b>	<b>(9,865)</b>	<b>(10,450)</b>	<b>(345)</b>	<b>(10,795)</b>
<b>Increase (decrease) in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,226)</b>	<b>(585)</b>	<b>31,830</b>	<b>29,019</b>	<b>5,080</b>	<b>34,099</b>
<b>As at Mar 31 2023</b>	<b>3,915</b>	<b>106,202</b>	<b>857</b>	<b>7,245</b>	<b>2,415</b>	<b>(1,507)</b>	<b>94,568</b>	<b>213,695</b>	<b>12,101</b>	<b>225,796</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
<b><i>Operating activities</i></b>		
Profit before tax	60,439	40,788
Adjustments for:		
Depreciation and amortisation	18,873	14,343
Interest and share of profits (dividends)	7,751	2,911
Gains from investing activities	748	65
Change in inventories	(6,825)	(28,839)
Change in receivables	2,073	(39,998)
Change in liabilities and provisions	12,412	32,614
Change in contract assets and liabilities	(17,429)	(6,768)
Change in other assets	(277)	426
Other adjustments	(2,324)	(1,022)
<b>Total adjustments</b>	<b>15,002</b>	<b>(26,268)</b>
Total cash flows from operating activities	75,441	14,520
Income tax paid	(11,395)	(7,950)
	<b>64,046</b>	<b>6,570</b>
<b><i>Investing activities</i></b>		
Purchase of property, plant and equipment and intangible assets	(10,932)	(13,150)
Proceeds from disposal of property, plant and equipment	-	-
Purchase of financial assets (acquisition of shares in a jointly controlled entity)	-	(3,100)
Loans	(1,581)	(2,100)
Grants for development projects	556	687
	<b>(11,957)</b>	<b>(17,663)</b>
<b><i>Financing activities</i></b>		
Proceeds from (repayment of) borrowings	(11,589)	30,056
Repayment of lease principal instalments	(12,645)	(9,238)
Dividends paid	(10,210)	(10,724)
Interest paid	(7,751)	(2,911)
Buyback of shares	(585)	(379)
	<b>(42,780)</b>	<b>6,804</b>
<b>Change in cash</b>	<b>9,309</b>	<b>(4,289)</b>
Cash at beginning of period	19,939	24,228
<b>Cash at end of period</b>	<b>29,248</b>	<b>19,939</b>

## NOTES

### NOTE 1 – GENERAL INFORMATION

#### 1. The Parent

MERCOR S.A. (the "Company") acts as the parent of the MERCOR S.A. Group (the "Group" or "MERCOR S.A. Group"). The Company engages in business activities as a joint stock company. Until September 21st 2004, the Company operated as Przedsiębiorstwo Usługowo-Handlowe MERCOR Sp. z o.o. On September 21st 2004, PUH MERCOR Sp. z o.o. underwent a legal transformation, changing the legal form of Przedsiębiorstwo Usługowo-Handlowego MERCOR Sp. z o.o. to MERCOR Spółka Akcyjna (joint stock company).

The Company's registered office is located at ul. Grzegorza z Sanoka 2 in Gdańsk, Poland, which is the principal place of business of the Company. 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 Parent and the Group consists in the manufacture, sale, installation and maintenance of passive fire protection systems. Until December 16th 2013, the Group's product portfolio encompassed all four product groups within the sector of passive fire protection systems:

- fire separations (fire-rated doors and gates, profiled fire walls)
- smoke and heat exhaust systems, rooflight systems,
- fire ventilation systems,
- fire protections of building structures.

On December 16th 2013, the Group divested its fire separations business to an external investor and discontinued offering these solutions. From the date of divestment until April 2017, the fire separations segment focused exclusively on completing ongoing contracts, with the necessary approval from the new owner of the business line. In April 2017, the parent acquired shares in SP ZERO Sp. z o.o. (now DFM Doors Sp. z o.o.), an entity specializing in fire separations. This strategic move was part of the Mercor Group's broader plan to re-enter this segment of the market with a new business model.

In terms of geographical distribution, the Group's sales predominantly focus on the Polish market (50%), followed by the Russian (10%), Spanish (8%), Hungarian (8%), Czech and Slovak (6% combined) markets. Sales to other countries account for a total of 18%.

As at March 31st 2023 and as of the date of issue of these consolidated financial statements, the Management Board of the Parent 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.

The composition of the Management Board did not change during the financial year.

As at March 31st 2023 and as of the date of issue of these consolidated financial statements, the Supervisory Board of the Parent 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.

The composition of the Supervisory Board did not change during the financial year.

## 2. Companies of the Group

As at March 31st 2023, apart from the parent company, the MERCOR Group consisted of the following entities:

Name	Principal business	Interest held by the Parent	% ownership interest	% voting interest
TOB Mercor Ukraine Sp. z o.o. of Drohovyzh (Ukraine)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
Mercor Fire Protection Systems S. R. L. of Bucharest (Romania)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Tecresa Protección Pasiva S.L.U of Madrid (Spain)	manufacture, sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
MHD1 Sp. z o.o. of Gdańsk (Poland)	execution of construction projects	Subsidiary consolidated using the full method	100%	100%
OOO Mercor Proof of Moscow (Russia)	manufacture, sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
MKRP Systems Unitary Production Enterprise of Minsk (Belarus) (subsidiary of OOO Mercor Proof)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
TOO MKR – Astana of Almaty (Kazakhstan) (subsidiary of Mercor Proof)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
MERCOR HD Sp. z o.o. of Gdańsk (Poland)	execution of construction projects	Subsidiary consolidated using the full method	100%	100%

Mercor Czech Republic s.r.o. of Ostrava (Czech Republic)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Mercor Slovakia s.r.o. of Bratislava (Slovakia)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
MERCOR SILBOARD spółka z o.o. of Gdańsk (Poland)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Mercor Dunamenti Tűzvédelem Zrt of Good (Hungary)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Dunamenti CZ s.r.o. of Prague (Czech Republic) (subsidiary of Dunamenti Tűzvédelem Zrt)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Dunamenti s.r.o. of Kolárovo (Slovakia) (subsidiary of Dunamenti Tűzvédelem Zrt)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
DFM Doors Sp. z o.o. of Gdańsk (Poland)	manufacture of passive fire protection systems	Subsidiary consolidated using the full method	82%	82%
MCR Sol Energy Sp. z o.o. of Gdańsk (Poland)	generation, transmission and distribution of electricity	Subsidiary consolidated using the full method	100%	100%
Mercor Fire Protection Ltd of Saford (UK)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
MCR TECH LAB Sp. z o.o. of Gdańsk (Poland)	Computer programming and consultancy	Subsidiary consolidated using the full method	51%	51%
MERCOR Centrum Usług Wspólnych Sp. z o.o. of Gdańsk (Poland)	Administrative, office, accounting, HR and payroll, IT and marketing services	Subsidiary consolidated using the full method	100%	100%
Elmech-ASE S.A. of Pruszcz Gdański (Poland)	Design and manufacture of electronics and power electronics	Equity-accounted jointly controlled entity	50%	50%

In September 2022, the parent acquired 51% of shares in a newly established company MCR TECH LAB Sp. z o.o. for a price of PLN 25.5 thousand, and 100% of shares in a newly established company Mercor Centrum Usług Wspólnych Sp. z o.o. for a price of PLN 5 thousand. The parent's ownership interests are the same as voting interests in those companies (Note 13).

As at March 31st 2022, apart from the parent company, the MERCOR Group consisted of the following entities:

Name	Principal business	Interest held by the Parent	% ownership interest	% voting interest
TOB Mercor Ukraine Sp. z o.o. of Drohovyzh (Ukraine)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
Mercor Fire Protection Systems S. R. L. of Bucharest (Romania)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Tecresa Protección Pasiva S.L.U of Madrid (Spain)	manufacture, sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%

MHD1 Sp. z o.o. of Gdańsk (Poland)	execution of construction projects	Subsidiary consolidated using the full method	100%	100%
OOO Mercor Proof of Moscow (Russia)	manufacture, sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
MKRP Systems Unitary Production Enterprise of Minsk (Belarus) (subsidiary of OOO Mercor Proof)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
TOO MKR – Astana of Almaty (Kazakhstan) (subsidiary of Mercor Proof)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	55%	55%
MERCOR HD Sp. z o.o. of Gdańsk (Poland)	execution of construction projects	Subsidiary consolidated using the full method	100%	100%
Mercor Czech Republic s.r.o. of Ostrava (Czech Republic)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Mercor Slovakia s.r.o. of Bratislava (Slovakia)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
MERCOR SILBOARD spółka z o.o. of Gdańsk (Poland)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Mercor Dunamenti Tűzvédelem Zrt of Good (Hungary)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Dunamenti CZ s.r.o. of Prague (Czech Republic) (subsidiary of Dunamenti Tűzvédelem Zrt)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Dunamenti s.r.o. of Kolárovo (Slovakia) (subsidiary of Dunamenti Tűzvédelem Zrt)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
DFM Doors Sp. z o.o. of Gdańsk (Poland)	manufacture of passive fire protection systems	Subsidiary consolidated using the full method	82%	82%
MCR Sol Energy Sp. z o.o. of Gdańsk (Poland)	generation, transmission and distribution of electricity	Subsidiary consolidated using the full method	100%	100%
Mercor Fire Protection Ltd of Saford (UK)	sales, construction and assembly of passive fire protection systems	Subsidiary consolidated using the full method	100%	100%
Elmech-ASE Sp. z o.o. of Pruszcz Gdański (Poland)	Design and manufacture of electronics and power electronics	Equity-accounted jointly controlled entity	50%	50%

### 3. Going concern assumption

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for a period of at least 12 months from the reporting date. As at the date of authorisation of these financial statements, the Management Board of the Group was aware of no facts or circumstances that would indicate a threat to the Group 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.

The assumptions underlying this assessment also considered the potential ramifications of the war in Ukraine and the economic downturn resulting from the COVID-19 pandemic. The Group will closely monitor the prevailing circumstances and will undertake all requisite and appropriate actions to mitigate any adverse effects arising from these events as they evolve further.

### 4. Impact of the war in Ukraine on the business

The Management Board of the Parent has been monitoring the impact of the war in Ukraine on the business operations of the Company and its subsidiaries since the onset of the conflict 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 Group'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 have been identified in the process: potential changes in investor sentiment and investor preferences; rising prices and shortages of raw materials and energy; potential disruptions to the supply chain; fluctuations in interest rates and currency exchange rates; changes in the labour market; financial soundness of trading partners; cyber security, sanctions, and dividends. The Management Board of the Parent and the managing 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 Group was not materially affected by any sanctions.

Within the countries affected by the war, the Group maintains a 55% equity interest in TOB MERCOR UKRAINA Sp. z o.o., a company based in Ukraine. Additionally, the Group holds a combined 55% ownership interest, both directly and indirectly through a Group company, in the share capital of OOO Mercor-PROOF LLC, a company located in Russia. The Group has successfully retained control over these subsidiaries, ensuring that shareholders' rights are being exercised in full compliance with the relevant laws and internal regulations governing the operations of the companies in Ukraine and Russia.

As at the date of this report, TOB MERCOR UKRAINA conducted production and trading operations to the extent permitted by the available human resources. The company has its registered office in Lviv, a city in western Ukraine, with production operations conducted at a facility located even further west. Virtually no military operations are being conducted in these regions. The company does not generate losses, and none of its assets have been destroyed. The Ukrainian company does not use external financing and pays its liabilities from operating cash flows. To the best knowledge of the Management Board of the Parent, there are no reasons to expect any material changes in the operations of MERCOR UKRAINA or any potential reduction in the scale of its operations despite the ongoing war. Most orders received by the company are from other Group companies, and the Management Board of the Parent monitors the level and profitability of the orders and capacity utilisation rates on an ongoing basis. Given the results of order and production analyses, location and no material exposure of the company to the Ukrainian market, the Management Board believes there is no indication of impairment of TOB MERCOR UKRAINA's assets. The total net asset value of the Ukrainian subsidiary is PLN 5,209 thousand, representing 1.2% of the assets disclosed in the consolidated 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 total net asset value of the Russian subsidiary is PLN 22,066 thousand, which constitutes 4.9% of the assets disclosed in the consolidated 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 Parent identified no threat to the Parent's and other Group companies' ability to continue as going concerns as at the date of these financial statements and for the foreseeable future.

## 5. Impact of the COVID-19 pandemic on the Group's business

Throughout the pandemic, the Group's management consistently monitored the situation and its impact on the Group's business. In response, strategic adjustments were made to the organizational structure, implementing cost-saving measures that effectively enhanced the Group'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 Group's business and financial results. The recessionary environment has also had a limited effect on the Group's revenue generation. Importantly, the Group's ability to collect receivables remains unaffected. Notably, thanks to the Group's product diversification strategy, sales markets and the portfolio of customers have experienced minimal turbulence. All these circumstances have been thoroughly considered in formulating the assumptions used to assess the Group's ability to continue as a going concern and to determine the value of its assets, particularly non-current assets and goodwill arising from subsidiary acquisitions. For details, please refer to the relevant notes to these financial statements.

## NOTE 2 - MATERIAL ACCOUNTING POLICIES

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

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

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

### 1. Basis of accounting and statement of compliance

The consolidated financial statements of the MERCOR Group for the year ended March 31st 2023 have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

### 2. New standards and interpretations not applied in these financial statements

#### **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 Group's consolidated financial statements.

The Group 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 Group 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 Group'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 Group.

### 3. Professional judgment of the Group's Management Board

When preparing the consolidated financial statements of the Group, 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 Group 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 non-current assets

The Group reviewed indications of potential impairment of non-current assets. In the case of property, plant and equipment and intangible assets other than development work and goodwill, no indications of impairment were identified. Completed development work, work in progress, and 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 descriptions of the impairment tests, please refer to Note 11 to these financial statements.

c) Deferred tax assets

The Group 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 Group 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 Group takes into account all available evidence, both that supporting existence of the probability and that supporting its absence.

d) Leases – the Group as a lessee

The Group 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 Group is able to extend the lease term of certain lease contracts. The Group 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 Group 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.

e) Interests in joint ventures

The Group holds interests in the joint venture ELMECH-ASE Sp. z o.o. of Pruszcz Gdański. As of the reporting date, the Group measured its interest in the joint venture by conducting an analysis of the financial results of the jointly controlled entity. The analysis involved comparing the financial result achieved by the joint venture with the expenditure incurred to acquire the interest in the joint venture. As the jointly controlled entity prepares financial statements for a financial year that is different from the financial year of the Group, the data of the jointly controlled entity was restated accordingly to align the reporting periods and the accounting policies applied. The Group classified the acquisition as a joint venture after analysing indications of control over the entity.

#### 4. 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 Group 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 Group reviews the economic useful lives of depreciable non-current assets. The Management Board of the Group 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.

b) Impairment of receivables

The Group 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 Group uses 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 Group 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 Group exercises professional judgment.

e) Depreciation/amortisation rates

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

f) Lessee's incremental borrowing rate

The Group is not able to readily determine the interest rate for lease contracts. Therefore, when measuring a lease liability, the Group uses the lessee's incremental borrowing rate. It is the rate of interest that the Group 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.

g) 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 Group 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.

Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Group discloses such settlement taking into consideration the assessed uncertainty.

## 5. Material accounting policies

### Consolidation – subsidiaries

Subsidiaries are all entities (including special purpose vehicles) over which the Group has control and power to govern their financial and operating policies in order to obtain economic benefits from its operations. Such power is usually derived from the holding of the majority of voting rights in the entity's

governing bodies. While assessing whether the Group controls a given entity, it takes into consideration the existence and effect of potential voting rights which may be exercised or converted at a given time. The ability to exercise control occurs when the parent:

- 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 Group applies the acquisition method to account for acquisitions of subsidiaries. The cost of an acquisition is determined as the fair value of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition, regardless of the size of any non-controlling interest. Any excess of the acquisition cost over the fair value of the Group's interest in the identifiable net assets acquired is recognised as goodwill. Goodwill is not amortised, but is tested for impairment annually.

If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly through profit or loss.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Subsidiaries whose financial year-ends differ from that of the Parent prepare, for the purposes of the consolidated financial statements, consolidation packages covering a period consistent with the Parent's financial year.

Transactions, receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

### **Consolidation – jointly controlled entities**

Jointly controlled entities are recognised in accordance with IFRS 11 and are classified as joint operations or joint ventures depending on the rights and obligations of the jointly controlling parties. A joint operation is a joint contractual arrangement in which the parties exercising joint control over the arrangement have rights to assets and obligations for liabilities associated with the arrangement. Those parties are referred to joint operators. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets resulting from the arrangement. Those parties are referred to as joint venturers. A joint ventures recognises its interest in a joint venture as an investment and accounts for this investment using the equity method in accordance with IAS 28.

## 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). Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Subsequent to initial recognition, intangible assets with finite useful lives 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 Group 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 costs

To assess whether an intangible asset created by the Group meets the criteria for recognition, the Group 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 Group 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.

Intangible assets are amortised at amortisation rates that reflect the expected useful lives of the assets. Other than goodwill, the Group has no 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 Group classifies financial assets based on its business model of financial asset management and the assets' contractual cash flow characteristics (the SPPI test). The Group reclassifies investments in debt instruments when, and only when, their management model changes.

#### *Measurement on initial recognition*

With the exception of certain 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 their acquisition.

#### *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 Group 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 Group 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 Group 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 Group 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 entity's right to receive the dividend arises.

The Group 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 Group 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.

**Impairment of financial assets**

The Group 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 Group 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 Group uses its historical credit loss data, adjusted where appropriate for the impact of forward-looking information.

For other financial assets, the Group measures the allowance for expected credit losses in an amount equal to 12-month expected credit losses. The Group 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 Group 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 Group considers the debtor to have defaulted if days past due exceed 180 days and the debt is not insured.

## Measurement at fair value

The Group 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 Group 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 Group 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 establishes the rules and procedures for systematic fair value measurement of such assets as derivative financial instruments 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 Group 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 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.

The Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group's principal business, are recognized as finance costs or income.

The average exchange rates used to account for foreign currency items held by the Group as at the reporting date and the average annual rates (determined as the arithmetic average for a given currency of all rates published by the National Bank of Poland during the reporting period) 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 Group as a lessee**

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

### *Right-of-use assets*

The Group 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 Group 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 Group and payments of penalties for terminating the lease if the lease terms grant a termination option to the Group. 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group can identify each party's rights regarding the goods or services to be transferred;
- the Group 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 Group's future cash flows is expected to change as a result of the contract); and

- it is probable that the Group 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 Group takes into account only the customer's ability and intention to pay that consideration when due. The consideration to which the Group will be entitled may be lower than the price specified in the contract if the consideration is variable as the Group may offer a price concession to the customer.

#### *Identifying performance obligations*

At contract inception, the Group 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 Group'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 Group 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 Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer. The Group estimates an amount of variable consideration by using either of the following methods, depending on which method the Group 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 Group 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 Group 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.

#### *Allocating the transaction price to performance obligations*

The Group 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 Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

#### *Satisfying performance obligations*

The Group recognises revenue when (or as) the Group 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 Group evaluates the nature of its promise to the customer, whether the nature of the Group's performance obligation is to provide the specified goods or services to the customer itself (in this case the Group is the principal) or to arrange for them to be provided by another entity (in this case the Group entity is an agent).

The Group 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 Group 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 Group 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.

#### *Variable remuneration*

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 Group estimates the amount of variable remuneration using the expected value method.

#### *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 Group recognizes a significant financing component due to the time value of money. In order to determine the transaction price, the Group 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 Group provides warranty for sold products, ensuring that the products conform to the specifications agreed upon by the parties. The Group recognises such warranties in accordance with IAS 37.

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 Group 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 Group 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 Group's future performance). The Group assesses whether a contract asset is impaired using the same impairment testing methodology as for a financial asset under IFRS 9.

#### *Receivables*

Under receivables, the Group 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 Group 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 Group 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 Group recognises the right to recover products from customers on settling the refund liability.

#### *Refund liabilities*

The Group recognises a refund liability if, having received consideration from a customer, the Group expects to refund a part or all of that consideration to the customer. A refund liability is measured as the amount of consideration received (or receivable) to which the Group does not expect to be entitled (i.e. amounts not included in the transaction price). The refund liability is remeasured at the end of each reporting period for changes in circumstances. This includes a corresponding change in the transaction price and the related change in the contract liability.

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

- supply of products without assembly services – revenue generally recognised at the date of transfer of goods to the customer
- supply of products and provision of assembly services – revenue recognised over time
- 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 Group 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 Group 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 Group, it is probable that the Group's approach to a tax issue or group of tax issues will be accepted by a tax authority, the Group 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 Group 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 Group determines that it is not probable that the tax authority will accept the Group's treatment of a tax issue or group of tax issues, the Group reflects the effect of the uncertainty in the accounting treatment of the tax in the period in which it determines it. The Group 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 Group determines the most likely scenario – this is a single amount from among possible outcomes, or
- the Group recognises the expected amount – the sum of probability-weighted amounts from a range of possible outcomes.

## Operating segments

The Group'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 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Revenue from sale of products	562,853	458,248
- including revenue recognised over time	242,776	193,206
Revenue from sale of merchandise and materials	65,505	37,781
<b>Total revenue</b>	<b><u>628,358</u></b>	<b><u>496,029</u></b>
including:		
- from sales to related entities	<u>89</u>	<u>48</u>

## Main products

The Group's business consists in the production, sale, construction and assembly, as well as maintenance of passive fire protection systems. The products offered during the reporting period may be divided into four product groups:

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

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

## Revenue by geographical markets

	<u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Poland	315,537	247,710
Czech Republic and Slovakia	39,742	40,864
Spain	48,801	47,998
Russia	62,073	47,943
Ukraine	8,090	10,751
Romania	8,812	10,732
Hungary	47,735	36,909
UK	8,311	5,190
Other	89,257	47,932
<b>Total revenue</b>	<b><u>628,358</u></b>	<b><u>496,029</u></b>

	<u>End of</u> <u>period Mar</u> <u>31 2023</u>	<u>End of</u> <u>period Mar</u> <u>31 2022</u>
	PLN thousand	PLN thousand
Current contract assets	27,913	21,214
Current contract liabilities	2,240	12,970

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</u> <u>2023</u>	<u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Cost of sales	472,164	379,218
Selling expenses	51,650	43,662
Administrative expenses	36,921	30,507
<b>Total operating expenses</b>	<b><u>560,735</u></b>	<b><u>453,387</u></b>
including:		
Depreciation and amortisation	18,873	14,343
Raw materials and consumables used	279,262	238,546
– including change in products	(2,431)	(2,690)
Services	107,167	86,115
Salaries and wages	78,759	66,627
Employee benefits	15,626	13,429
Taxes and charges	6,764	4,885
Other	6,784	2,967
Cost of merchandise and materials sold	47,500	26,475
	<b><u>560,735</u></b>	<b><u>453,387</u></b>

### Personnel expenses

#### Remuneration

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

#### Employee benefits

Social security costs for entities located in Poland 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 period, these costs were 20.25% of the maximum taxable earnings.

Entities located in the Czech Republic are required to contribute 34% of their maximum taxable earnings, while entities located in Slovakia pay 35.2% of their maximum taxable earnings. Social security contributions in Spain are 23.6% of the taxable earnings. In Hungary, such contributions represent 28.5% of the taxable earnings. The burden in Russia is 30.41%, while in Romania it is 22.75%.

Pension benefits expense includes retirement severance payments paid to employees in accordance with applicable labour regulations in individual jurisdictions. At the Group companies operating in Poland, retirement severance payments are provided for in the labour law. These companies incur 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 Group recognises

costs of payments to PPK as employee benefit expense. PPK liabilities are presented as part of other liabilities.

In Spain, the Czech Republic, and Slovakia, there is no obligation to pay retirement severance packages.

Some of the Group's companies located in Poland are required to establish a Company Social Benefits Fund (ZFŚS). 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 health benefits, training, and other benefits prescribed by labour laws.

### Development costs

	<u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Expensed development costs	1,272	1,566
Amortisation of capitalised development costs	<u>5,154</u>	<u>3,387</u>
	<b><u>6,426</u></b>	<b><u>4,953</u></b>

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>For period</u> <u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>For period</u> <u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Gains on sale of property, plant and equipment	1,153	641
Reimbursement of court costs	78	128
Compensation and penalties received	534	782
Recoveries previously written off as uncollectible	17	95
Past due liabilities written off	13	435
Liabilities cancelled	-	542
Grants for development projects	597	611
Other	<u>584</u>	<u>397</u>
	<b><u>2,976</u></b>	<b><u>3,631</u></b>

## NOTE 6 – OTHER EXPENSES

	<u>For period</u> <u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>For period</u> <u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Penalties, fines and damages	31	125
Receivables written off	-	131
Litigation costs	156	26
Provision for warranty repairs	-	303
Other	1,903	1,380
	<b><u>2,090</u></b>	<b><u>1,966</u></b>

## NOTE 7 – FINANCE INCOME

	<u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Interest on deposits	515	112
Interest on loans	281	-
Interest on late payments	85	759
Net foreign exchange gains	1,371	423
Other	549	170
	<b><u>2,801</u></b>	<b><u>1,464</u></b>

## NOTE 8 – FINANCE COSTS

	<u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Interest on borrowings	5,681	1,768
Interest on late payments	49	13
Interest on leases	2,070	1,143
Net foreign exchange losses	295	379
Commission fees on bank borrowings and guarantees	534	482
Other	583	219
	<b><u>9,212</u></b>	<b><u>4,004</u></b>

## NOTE 9 – INCOME TAX

Current tax burden is calculated in accordance with the applicable tax regulations. Pursuant to the regulations, tax profit (loss) differs from accounting profit (loss) in that it does not include taxable income and non-deductible expenses, or income or expense items that will never be taxable or deductible.

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.

Entities located outside Poland pay income tax at the rates applicable in the respective country. The rates in effect for the financial year from April 1st 2022 to March 31st 2023 and the previous year were as follows:

- in the Czech Republic – 19%
- in Slovakia – 22%
- in Ukraine – 18%
- in Romania – 16%
- in Spain – 25%
- in the Russian Federation – 20%
- in Belarus – 18%
- in Hungary – 10%
- in the UK – 19%.

The Group is subject to general income tax laws. The Group is not part of a tax group, nor does it operate in a Special Economic Zone. None of the Group companies 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 were as follows:

	<u>Apr 1 2022 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
Statutory tax rate of the Parent	19%	19%
	PLN thousand	PLN thousand
<b><i>Current income tax</i></b>		
Current income tax expense	12,765	7,894
Withholding tax on corporate profit distribution income	38	201
Prior-year adjustments	-	(117)
	<b>12,803</b>	<b>7,978</b>
<b><i>Deferred income tax</i></b>		
Related to recognition and reversal of temporary differences	418	331
	<b>418</b>	<b>331</b>
Income tax expense in statement of comprehensive income	<b>13,221</b>	<b>8,309</b>

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

Profit/(loss) before tax	60,439	40,788
Effective tax rate	21.87%	20.37%
<b>Income tax at effective tax rate</b>	<b>13,221</b>	<b>8,309</b>
Income tax at 19%	11,483	7,750
Tax effect of tax-exempt income	(66)	(995)
Tax effect of non-deductible expenses or non-taxable income	2,507	2,105
Tax effect related to tax losses incurred	(626)	(5)
Effect of applying different tax rates	(77)	(546)
<b>Income tax at effective tax rate</b>	<b>13,221</b>	<b>8,309</b>

Deferred tax is recognised for temporary differences between taxable income and profit/(loss) before tax 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
<b>Deferred tax liability</b>				
Differences between tax base and carrying amount of property, plant and equipment and intangible assets	2,837	2,297	(540)	126
Effects of measurement of contracts with customers	2,541	2,081	(460)	(1,139)
Unrealised exchange differences and measurement of forward contracts	1	-	(1)	-
Accrued interest	130	15	(115)	(15)
<b>Deferred tax liability</b>	<b>5,509</b>	<b>4,393</b>	<b>(1,116)</b>	<b>(1,028)</b>
<b>Deferred tax assets</b>				
Effects of measurement of contracts with customers	941	1,380	(439)	328
Differences between tax base and carrying amount of property, plant and equipment and intangible assets	23	68	(45)	30
Provisions for employee expenses and employee benefit obligations	4,169	2,983	1,186	1,019
Impairment losses on receivables	1,242	1,421	(179)	(75)
Write-downs of inventories	2,103	852	1,251	(141)

Unrealised exchange differences  
and measurement of forward

contracts	9	30	(21)	(39)
Deferred income	-	219	(219)	(120)
Accrued interest	183	102	81	(11)
Tax loss asset	1,234	2,428	(917)	(294)
<b>Deferred tax assets</b>	<b>9,904</b>	<b>9,483</b>	698	697
<i>including:</i>				
<i>deferred tax assets</i>	<i>4,446</i>	<i>5,090</i>		
<i>deferred tax liability</i>	<i>51</i>	<i>-</i>		
<b>Deferred tax expense</b>			<b>(418)</b>	<b>(331)</b>
<b>Amounts recognised in equity</b>			<b>-</b>	<b>-</b>

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 carrying amount and the tax base of goodwill.

An analysis of the recoverability of the deferred tax asset arising from recognised tax losses did not reveal any indications of impairment of that asset. Assets recognized by the Spanish company Tecresa in the amount of PLN 1,049 thousand, relating to tax losses incurred in the 2013/2014 and 2014/2015 financial years, are deductible from taxable income up to and including 2024. The tax loss incurred by DFM Doors Sp. z o.o. for the financial years 2017 and 2018 will be settled by 2024. The value of the asset recognised for this loss is PLN 185,000.

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

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

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

The tax investigation was concluded in September 2015 with decisions issued by the Head of the Gdańsk Province Tax Office assessing the Parent's income tax liability for 2012/2013 at PLN 5,375,791 and default

interest on unpaid corporate income tax advances at PLN 6,272. The Head of the Gdańsk Province Tax Office cited legal basis to support their decision that the sale of shares was an artificial transaction.

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

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

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

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

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

*(recharacterisation), derived from the wording of Art. 11.1 of the CIT Act and Art. 25.1 of the PIT Act, has been clarified in the introduced regulations'.*

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

In May 2021, the Parent 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 Parent filed a request with the Director of the Tax Administration Chamber in Gdańsk for an administrative hearing to be held in connection with the pending appeals. On 28 February, the Director of the Tax Administration Chamber in Gdańsk declined to hold a hearing requested by the Parent, stating that there was no need to further elaborate on the legal reasoning set out in the initial authority's tax liability assessment decision, as this had already provided a comprehensive justification of the regulations applied in the matter. In March 2022, the Parent presented its position on the evidence gathered by the Director of the Tax Administration Chamber during the appeal proceedings, reiterating the absence of legal basis for the decisions issued by the Head of the Gdańsk Province Tax Office. The Parent requested that the decisions be set aside, or failing that, that an administrative hearing be held to examine the evidence gathered and to establish and clarify the circumstances surrounding the adoption by the Head of the Gdańsk Province Tax Office of the legal bases cited in its decisions. However, the Parent's request was not granted by the tax authority.

On August 17th 2022, the Parent received a decision from the Director of the Tax Administration Chamber in Gdańsk, dated August 1st 2022, upholding the decision of the Head of the Gdańsk Province Tax Office. However, the second-instance authority cited the transfer pricing regulations (Article 11.1 of the Corporate Income Tax Act) as in force during the period covered by the proceedings as the legal basis, determining the amount of income from 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 Parent 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 Parent, as at the date of these consolidated financial statements, the risk that the contingent receivable of PLN 5,433 thousand related to the corporate income tax refund (resulting from tax advances paid for the tax year 2012/2013) would not be recovered by the Company was not significant (below 50%).

### **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 Parent 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 Parent'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 Parent 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 Parent 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 Parent on the same date on which it filed the correction. On December 4th 2018, the Parent received a decision of the Head of the Gdańsk Province Customs and Tax Office assessing corporate income tax liability at PLN 4,230,360.00. 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 Parent'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 10 – EARNINGS PER SHARE AND DIVIDENDS

### Earnings per share

	<u>Apr 1 2022</u> <u>– Mar 31</u> <u>2023</u>	<u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
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Number of shares (net of treasury shares)	15,544,103	15,582,123
Net profit (PLN thousand)	41,695	29,789
Earnings per share (PLN)	2.68	1.91

### Dividends paid and declared

During the financial year, the Parent paid dividend from profit for 2021/2022.

Dividend payment date	Dividend amount (PLN thousand)	Dividend per share (PLN)
November 18th 2022	9,865	0.63

Mercor Proof, a subsidiary, distributed dividends of PLN 345 thousand to non-controlling interests.

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

## NOTE 11 – INTANGIBLE ASSETS

	<u>End of</u> <u>period Mar</u> <u>31 2023</u> PLN thousand	<u>End of</u> <u>period Mar</u> <u>31 2022</u> PLN thousand
Goodwill	51,613	51,566
Costs of completed development work	17,346	15,949
Capitalised costs of development work in progress	4,871	6,424
Concessions and licences	4,649	4,907
	<u><b>78,479</b></u>	<u><b>78,846</b></u>

## Development work

Development expenditure at the Group 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 Group conducted impairment tests for all completed and ongoing development work carried out by the Group, using a discounted cash flow method. For the assessment of impairment of completed development work and development work in progress, two cash generating units (SGUs) were identified at the level of "MERCOR" S.A. and DFM Doors Sp. z o.o., to which the respective assets were allocated. The discount rate applied in the tests was determined using the weighted average cost of capital, set at 9.0%. 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 Group's operations. None of the Group's intangible assets are pledged as collateral.

## Goodwill

As of March 31st 2023, the goodwill disclosed in the consolidated financial statements included the goodwill arising from the acquisition of:

	<u>Gross amount</u>	<u>Write-downs</u>	<u>Exchange differences</u>	<u>Net amount</u>
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Tecresa	97,183	57,349	4,752	44,586
Proteccion Pasiva				
Dunamenti				
Tűzvédelem Zrt.	7,537	-	(717)	6,820
Group				
DFM DOORS Sp. z o.o.	207	-	-	207
	<b>104,927</b>	<b>57,349</b>	<b>4,035</b>	<b>51,613</b>

Two cash-generating units (CGUs) were identified at the level of individual companies, in which significant goodwill was recognised. These CGUs were Tecresa Proteccion Pasiva and the Dunamenti Tuzveledem Group.

The impairment tests carried out as at 31 March 2023 for goodwill at Tecresa Proteccion Pasiva and Dunamenti Tuzveledem Zrt. were based on discounted cash flow (DCF) projections for periods covering 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:

- at the Tecresa Proteccion Pasiva CGU: 12% in the first year of the forecast and 10%, 9% and 6% in the remaining years;
- at the Dunamenti Tűzvédelem Zrt CGU: 9% in the first year of the forecast, 7% in the second year, and 4% in the following years.

In addition, the Tecresa CGU was included in the impairment test of goodwill arising from the acquisition of Tecresa, taking into account the product synergies between MERCOR S.A. and Tecresa. MERCOR sells smoke exhaust products to Tecresa, and Tecresa's products are integral to the sales of the fire protection division at MERCOR S.A. This arrangement has only become possible due to the acquisition. Prior to the acquisition, these products were not manufactured by the MERCOR Group. Thanks to the acquisition of Tecresa, the MERCOR Group achieves a full margin on the supply chain, from production to the provision of assembly services. Sales growth projections for MERCOR S.A. are based on the estimates of the growth expected in the Polish fire protection market. Furthermore, due to the centralization of operational functions within the group, exports are handled by the entities of "MERCOR" S.A. in both home markets and significant European export markets, as well as in export markets directly served by Tecresa, such as Asia, Africa, and South America.

The profitability projections for Tecresa's CGU rely on the adjustments made to the cost of structural and smoke exhaust products offered by the company. The expected result of reducing product prices is to gain larger market shares and increase sales, even though there might be a slight decrease in margins. In addition, as the Group further specializes in its core areas of expertise, economies of scale will materialise at Tecresa. The company will increase deliveries within the Group, directly leading to a rise in the operating margin and EBITDA.

As of the reporting date, the Group also tested for impairment the goodwill resulting from the acquisition of the Dunamenti Tűzvédelem Group. Dunamenti Tűzvédelem products complement MERCOR's product range in the fire protection division, while MERCOR S.A. supplies gravitational smoke removal products and mechanical ventilation risers to Dunamenti Tűzvédelem. Thanks to securing European certification documents for Dunamenti Tűzvédelem products, a dynamic increase in their sales in the MERCOR markets was assumed. The increase in sales within the Dunamenti Tűzvédelem markets was projected to match the long-term growth expected for the Hungarian market.

Goodwill arising from accounting for acquisitions was allocated to the following cash-generating units:

- Tecresa Proteccion Pasiva CGU
- Dunamenti Tűzvédelem Zrt Group CGU

	Tecresa CGU		Dunamenti CGU		Total	
	Mar 31 2023	Mar 31 2022	Mar 31 2023	Mar 31 2022	Mar 31 2023	Mar 31 2022
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Carrying amount of goodwill	44,586	44,366	6,820	6,993	51,406	51,359

#### *Tecresa Proteccion Pasiva CGU*

The recoverable amount of the Tecresa Proteccion Pasiva CGU was determined using the value in use method; it was calculated based on a cash flow forecast derived from the five-year financial budgets approved by the senior management. The weighted average cost of capital of 10.26% (21/22: 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: 1.253%).

#### *Dunamenti Tűzvédelem Zrt Group CGU*

The recoverable amount of the *Dunamenti Tűzvédelem Zrt Group CGU* was also determined using the value in use method; it was calculated based on a cash flow forecast derived from the five-year financial budgets approved by the senior management. The weighted average cost of capital of 11.51% (2021/22: 13.50%) was used to forecast the cash flows. The growth rate applied to extrapolate the unit's cash flows beyond the five-year period was 1.0% (2021/22: 1.1%).

#### *Key assumptions for the calculation of value in use*

The value in use of Tecresa Proteccion Pasiva and Dunamenti Tűzvédelem Zrt Group is most sensitive to the following variables:

- discount rate
- EBITDA

Discount rate – the discount rate reflects management's estimate of the risks typical of each CGU. It is an indicator used by management to estimate operational efficiency (performance) and to make future investment decisions. The weighted average cost of capital (WACC) was taken into account when determining the discount rates for each CGU.

EBITDA – calculated as operating profit before interest expense, taxes, depreciation and amortisation (i.e., amortisation of intangible assets and depreciation of property, plant and equipment).

#### *Sensitivity to changes of assumptions*

With regard to the value in use of the Dunamenti Tűzvédelem Zrt. Group CGU and the Tecresa Proteccion Pasiva CGU, management believes that no reasonably possible change in any of the key assumptions set out above would cause the carrying amounts of the CGUs to exceed their recoverable amounts. The entity's management conducted a sensitivity analysis to changes in EBITDA (+/- 10%) and WACC (+/- 1pp), which confirmed the above conclusion. To the extent reasonably practicable, a change in any of the key assumptions set out above did not result in a situation where the carrying amount of the cash-generating unit would exceed its recoverable amount.

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

	goodwill	costs of completed development work	capitalised costs of development work in progress	concessions and licences	total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Gross amount</b>					
<b>As at Apr 1 2022</b>	<b>104,928</b>	<b>40,331</b>	<b>7,398</b>	<b>17,533</b>	<b>170,190</b>
Increase:					
- purchase	-	-	-	2,431	2,431
- self-generated	-	6,571	3,940	-	10,511
Decrease:					
- sale and retirement	-	-	-	770	770
- development work completed with positive result	-	-	6,571	-	6,571
<b>As at Mar 31 2023</b>	<b>104,928</b>	<b>46,902</b>	<b>4,767</b>	<b>19,194</b>	<b>175,791</b>
<b>Accumulated amortisation and impairment losses</b>					
<b>As at Apr 1 2022</b>	<b>57,349</b>	<b>24,644</b>	<b>-</b>	<b>10,224</b>	<b>92,217</b>
Increase:					
- amortisation	-	5,154	-	849	6,003
Decrease:					
- sale and retirement	-	-	-	770	770
<b>As at Mar 31 2023</b>	<b>57,349</b>	<b>29,798</b>	<b>-</b>	<b>10,303</b>	<b>97,450</b>
Translation reserve	<b>4,034</b>	<b>242</b>	<b>104</b>	<b>(4,242)</b>	<b>138</b>
<b>Net carrying amount as at Mar 31 2023</b>	<b>51,613</b>	<b>17,346</b>	<b>4,871</b>	<b>4,649</b>	<b>78,479</b>

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

	goodwill	costs of completed development work	capitalised costs of development work in progress	concessions and licences	total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Gross amount</b>					
<b>As at Apr 1 2021</b>	<b>104,928</b>	<b>34,563</b>	<b>6,810</b>	<b>17,057</b>	<b>163,358</b>
Increase:					
- purchase	-	-	-	479	479
- self-generated	-	5,768	6,356	-	12,124
Decrease:					
- sale and retirement	-	-	-	3	3
- development work completed with positive result	-	-	5,768	-	5,768
<b>As at Mar 31 2022</b>	<b>104,928</b>	<b>40,331</b>	<b>7,398</b>	<b>17,533</b>	<b>170,190</b>
<b>Accumulated amortisation and impairment losses</b>					
<b>As at Apr 1 2021</b>	<b>57,349</b>	<b>21,257</b>	<b>-</b>	<b>9,276</b>	<b>87,882</b>
Increase:					
- amortisation	-	3,387	-	951	4,338
Decrease:					
- sale and retirement	-	-	-	3	3
<b>As at Mar 31 2022</b>	<b>57,349</b>	<b>24,644</b>	<b>-</b>	<b>10,224</b>	<b>92,217</b>
Translation reserve	<b>3,987</b>	<b>262</b>	<b>(974)</b>	<b>(2,402)</b>	<b>873</b>
<b>Net carrying amount as at Mar 31 2022</b>	<b>51,566</b>	<b>15,949</b>	<b>6,424</b>	<b>4,907</b>	<b>78,846</b>

## NOTE 12 – 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	4,836	1,836
Buildings and structures	28,118	13,667
Machinery and equipment	40,580	15,792
Vehicles	2,584	1,830
Other	1,173	1,236
<b>Property, plant and equipment</b>	<b>77,291</b>	<b>34,361</b>
Property, plant and equipment under construction	1,332	23,041
Prepayments for property, plant and equipment	801	455
	<u><b>79,424</b></u>	<u><b>57,857</b></u>

As at the reporting date, non-current assets were assessed by the Group 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 Group are pledged as security for loans advanced to the Group. 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 Group	12,005	12,125
	<b>12,005</b>	<b>12,125</b>

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
<b>Gross amount</b>							
<b>As at Apr 1 2022</b>	<b>1,836</b>	<b>20,036</b>	<b>42,539</b>	<b>4,163</b>	<b>4,930</b>	<b>23,041</b>	<b>96,545</b>
Increase:							
- purchase and transfer from property, plant and equipment under construction	-	5,050	24,194	1,552	300	4,083	35,179
- transfer to property, plant and equipment	3,000	18,777	9,886	-	-	-	31,663
Decrease:							
- sale and retirement	-	18	37	427	283	-	765
- purchase and transfer from property, plant and equipment under construction	-	-	-	-	-	25,792	25,792
<b>As at Mar 31 2023</b>	<b>4,836</b>	<b>43,845</b>	<b>76,582</b>	<b>5,288</b>	<b>4,947</b>	<b>1,332</b>	<b>136,830</b>
<b>Accumulated amortisation and impairment losses</b>							
<b>As at Apr 1 2022</b>	-	<b>8,602</b>	<b>26,281</b>	<b>3,775</b>	<b>3,694</b>	-	<b>42,352</b>
Increase:							
- depreciation	-	1,372	5,011	604	80	-	7,067
- transfer to property, plant and equipment	-	6,567	4,060	-	-	-	10,627
Decrease:							
- sale and retirement	-	4	35	374	-	-	413
<b>As at Mar 31 2023</b>	-	<b>16,537</b>	<b>35,317</b>	<b>4,005</b>	<b>3,774</b>	-	<b>59,633</b>
Translation reserve	-	810	(685)	1,301	-	-	1,426
<b>Net carrying amount as at Mar 31 2023</b>	<b>4,836</b>	<b>28,118</b>	<b>40,580</b>	<b>2,584</b>	<b>1,173</b>	<b>1,332</b>	<b>78,623</b>

### 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
<b>Gross amount</b>							
<b>As at Apr 1 2021</b>	<b>536</b>	<b>19,732</b>	<b>33,623</b>	<b>3,568</b>	<b>4,608</b>	<b>14,993</b>	<b>77,060</b>
Increase:							
- purchase and transfer from property, plant and equipment under construction	1,300	304	4,126	408	257	14,443	20,838
- transfer to property, plant and equipment	-	-	4,886	505	66	-	5,457
Decrease:							
- sale and retirement	-	-	96	318	1	-	415
- purchase and transfer from property, plant and equipment under construction	-	-	-	-	-	6,395	6,395
<b>As at Mar 31 2022</b>	<b>1,836</b>	<b>20,036</b>	<b>42,539</b>	<b>4,163</b>	<b>4,930</b>	<b>23,041</b>	<b>96,545</b>
<b>Accumulated amortisation and impairment losses</b>							
<b>As at Apr 1 2021</b>	<b>-</b>	<b>8,043</b>	<b>22,403</b>	<b>3,157</b>	<b>3,333</b>	<b>-</b>	<b>36,936</b>
Increase:							
- depreciation	-	559	2,544	567	315	-	3,985
- transfer to property, plant and equipment and intangible assets	-	-	1,423	203	47	-	1,673
Decrease:							
- sale and retirement	-	-	89	152	1	-	242
<b>As at Mar 31 2022</b>	<b>-</b>	<b>8,602</b>	<b>26,281</b>	<b>3,775</b>	<b>3,694</b>	<b>-</b>	<b>42,352</b>
Translation reserve	-	2,233	(466)	1,442	-	-	3,209
<b>Net carrying amount as at Mar 31 2022</b>	<b>1,836</b>	<b>13,667</b>	<b>15,792</b>	<b>1,830</b>	<b>1,236</b>	<b>23,041</b>	<b>57,402</b>

## NOTE 13 – INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

In December 2021, the Group acquired a 25% interest in ELMECH-ASE Sp. z o.o. of Pruszcz Gdański. ELMECH-ASE is a company specialising in developing intelligent power management technology, with a focus on energy storage facilities. Following a share capital increase, the Group further acquired additional shares in the company, resulting in a cumulative ownership of 50% equity and voting rights in ELMECH-ASE Sp. z o.o.

The table provided below offers a summary of the investment in the jointly controlled entity. The amounts are sourced from the company's financial statements and have been adjusted to ensure compliance with IFRS.

	<u>End of period</u> <u>Mar 31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Initial value of investment	3,100	3,100
Carrying amount of shares	493	2,394
Current assets	11,919	8,659
Non-current assets	815	1,432
Current liabilities	9,824	3,129
Non-current liabilities	5,907	5,474
Net assets of associate	(2,997)	1,488
Group's ownership interest in associate	50%	50%
Goodwill	-	-
Other adjustments	-	-

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Dec 7 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Revenue	9,867	2,083
Net profit (loss) from continuing operations	(5,212)	(1,411)
Profit/(loss) from discontinued operations	-	-
Net profit/(loss)	(5,212)	(1,411)

The Parent granted ELMECH-ASE Sp. z o.o. long-term loans of PLN 3,400 thousand.

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 value in use method, which was calculated based on a cash flow forecast 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 unit - ASE S.A. exceeds its carrying amount by PLN 29.8m.

The impact of changes in 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	(4,200)

## NOTE 14 – 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	9,665	9,153
Short-term security deposits receivable	6,056	6,360
Write-downs	(1,712)	(1,501)
	<u><b>14,009</b></u>	<u><b>14,012</b></u>

Customers retain deposits that are a contractually defined percentage of invoiced deliveries. 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 15 – OTHER NON-CURRENT 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
Accrued expenses represent the cost of future periods.	297	203
	<u><b>297</b></u>	<u><b>203</b></u>

## 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	50,203	57,090
Work in progress	7,461	4,658
Finished goods	31,136	13,444
Write-downs	(11,385)	(4,602)
	<b><u>77,415</u></b>	<b><u>70,590</u></b>

### Change in inventory write-downs

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
<b>At beginning of period</b>	<b>4,602</b>	<b>6,206</b>
Write-downs expensed	7,305	489
Write-downs used	522	2,093
<b>At end of the period</b>	<b>11,385</b>	<b>4,602</b>

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 Group used an inventory write-down of PLN 522 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 7,305 thousand.

Inventories are pledged as security for credit facilities advanced to the Group. 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
	<b><u>27,862</u></b>	<b><u>33,282</u></b>

## NOTE 17 – TRADE AND OTHER RECEIVABLES

	<u>End of period Mar</u> <u>31 2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
Trade receivables	109,981	110,823
Taxes (excluding corporate income tax) receivable	2,846	2,269
Prepayments made for deliveries	3,969	5,934
Other receivables	1,018	897
Write-downs	(8,118)	(8,157)
	<b><u>109,696</u></b>	<b><u>111,766</u></b>

Trade receivables are non-interest-bearing and typically mature in a period from 14 to 180 days. The fair value of receivables does not differ materially from their carrying amounts.

During the financial year, 70% of trade receivables were secured through insurance.

### Change in impairment losses on receivables

	<u>Apr 1 2022 –</u> <u>Mar 31 2023</u>	<u>Apr 1 2021 –</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
<b>At beginning of period</b>	<b>8,157</b>	<b>17,257</b>
Impairment losses expensed	3,082	361
Impairment losses reversed	3,101	466
Impairment losses used	(31)	(8,734)
Changes due to exchange rate differences	11	(261)
<b>At end of the period</b>	<b>8,118</b>	<b>8,157</b>

## NOTE 18 – OTHER CURRENT 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
Accrued expenses represent the cost of future periods.	2,970	2,775
	<b><u>2,970</u></b>	<b><u>2,775</u></b>

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</u> Mar 31 2023	<u>End of period</u> Mar 31 2022
	PLN thousand	PLN thousand
Cash in hand and at banks	29,248	19,939
	<b>29,248</b>	<b>19,939</b>

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 Group'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 separate VAT accounts is not recognised as restricted cash.

## NOTE 20 – EQUITY

### Share capital

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

<u>Series</u>	<u>Number of shares</u>	<u>Par value</u>	<u>Date of registration</u>	<u>Dividend right as of</u>	<u>Method of payment for shares</u>	<u>Type of shares</u>
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:			<u>0.25</u>		

\* 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.

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

By resolution of the Extraordinary General Meeting on January 26th 2023, 89,258 of Series BB shares of the Parent, representing 0.57% of its share capital, were cancelled. The cancellation of the shares and

reduction of the Parent'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 shareholding structure of the Parent as at March 31st 2023 was as follows:

<u>Shareholder</u>	<u>March 31st 2023</u>		<u>March 31st 2022</u>	
	<u>Number of shares</u>	<u>%</u>	<u>Number of shares</u>	<u>%</u>
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 Otwarty Fundusz Emerytalny	1,454,465	9.29%	1,566,821	10.01%
Otwarty 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%
Bantigo 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

Capital reserve of PLN 857 thousand was created as a result of a business combination.

In the previous reporting period, the Parent created a PLN 23,500 thousand reserve for the purpose of buying back its 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 Parent 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 Parent 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 Parent 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	62,738	25,587
Creation of reserve capital	-	-
Dissolution of reserve capital	-	16,255
Dividend payment	(9,865)	(8,893)
Current period profit attributable to shareholders of the Parent	41,695	29,789
	<b><u>94,568</u></b>	<b><u>62,738</u></b>

## 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	77,946	89,155
Borrowings from financial institutions	68	448
	<b>78,014</b>	<b>89,603</b>
including:		
<b>Non-current portion</b>	<b>67,762</b>	<b>76,150</b>
Borrowings from banks	67,762	76,082
Borrowings from financial institutions	-	68
<b>Current portion</b>	<b>10,252</b>	<b>13,453</b>
Borrowings from banks	10,184	13,073
Borrowings from financial institutions	68	380
<b>Borrowings maturing:</b>		
within 1 year	10,252	13,453
in 2 to 3 years	62,447	67,227
in 3 to 5 years	5,315	8,923
	<b>78,014</b>	<b>89,603</b>

The Parent complied with all the terms of its credit facility agreements.

Currency breakdown of the Group's bank borrowings (presented in PLN)

	<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-denominated facilities	37,816	85,180
EUR-denominated facilities	40,198	4,423
	<b>78,014</b>	<b>89,603</b>

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 reclassifications	Foreign exchange gains (losses)	Interest	
Long-term borrowings	76,150	(13,206)	(68)	-	4,886	67,762
Short-term borrowings	13,453	(4,064)	68	-	795	10,252
Lease liabilities	26,986	(14,117)	4,222	236	982	18,309

The table below presents the borrowings and material terms of credit facility agreements.

## Borrowings as at March 31st 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 Mirosław
BNP Paribas Bank Polska S.A.	Investment facility (acquisition of shares in Dunamenti Tűzvédelem 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 Tűzvédelem Zrt
BNP Paribas Bank Polska S.A.	Investment credit facility	10,000	PLN	1,232	3,980	1M 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 Mirosław
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 Mirosław, 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
Polski Fundusz Rozwoju	Covid subsidy	1,086	PLN	68	-	interest-free	Jun 30 2023	no security
BNP Paribas Bank Polska S.A.	Overdraft facility	6,000	PLN	5,027	-	1W WIBOR + margin	Nov 30 2023	assignment of receivables, registered pledge over inventory, with assignment of rights under insurance policy, blank promissory note
Santander Bank Polska S.A.	Overdraft facility	2,000	PLN	697	-	1M WIBOR + margin	Nov 15 2023	accession to debt by MERCOR S.A., statement of submission to enforcement



Santander Bank Polska S.A.	Overdraft facility	2,000	PLN	581	-	1M WIBOR + margin	Nov 15 2023	accession to debt by MERCOR S.A., statement of submission to enforcement
BANKIA	Covid loan	927	EUR	1,015	603	3M EURIBOR + margin	Sep 25 2025	no security
<b>Total borrowings</b>				<b>10,252</b>	<b>67,762</b>			

## Borrowings as at March 31st 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 Tűzvédelem 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 Tűzvédelem Zrt
BNP Paribas Bank Polska S.A.	Investment credit facility	10,000	PLN	1,188	5,175	1M 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
Polski Fundusz Rozwoju	Covid subsidy	1,086	PLN	272	68	interest-free	Jun 30 2023	no security



BNP Paribas Bank Polska S.A.	Overdraft facility	6,000	PLN	5,885	-	1W WIBOR + margin	Nov 30 2022	assignment of receivables, registered pledge over inventory, with assignment of rights under insurance policy, blank promissory note
Consortio Urbanistico Leganes Tecnologico	Investment credit facility	40	EUR	108	-	interest-free	Sep 25 2022	no security
BANCO	Import financing line	600	EUR	-	-	3M EURIBOR + margin	Mar 31 2023	no security
BANKIA	Covid loan	927	EUR	2,723	1,592	3M EURIBOR + margin	Sep 25 2025	no security
<b>Total borrowings</b>				<b>13,453</b>	<b>76,150</b>			

## 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
Provision for retirement benefits	566	566
Provision for warranty repairs	4,159	3,493
Provision for expected losses	-	-
	<u><b>4,725</b></u>	<u><b>4,059</b></u>
including:		
<b><i>Non-current portion</i></b>		
Provision for retirement benefits	555	555
Provision for warranty repairs	-	-
Provision for expected losses	-	-
	<u>555</u>	<u>555</u>
<b><i>Current portion</i></b>		
Provision for retirement benefits	11	11
Provision for warranty repairs	4,159	3,493
Provision for expected losses	-	-
	<u>4,170</u>	<u>3,504</u>

The Group 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.

Employees of the Group companies located in Poland are entitled to retirement severance payments in accordance with Article 92<sup>1</sup> 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 are 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%

	<u>Provision for retirement benefits</u>	<u>Provision for warranty repairs</u>	<u>Provision for expected losses</u>
	PLN thousand	PLN thousand	PLN thousand
<b>Provisions as at Mar 31 2022</b>	<b>566</b>	<b>3,493</b>	-
Provisions expensed	-	666	-
Reversal of provisions recognised in prior periods	-	-	-
Use of provisions recognised in prior periods	-	-	-
<b>Provisions as at Mar 31 2023</b>	<b>566</b>	<b>4,159</b>	-

## NOTE 23 – TRADE AND OTHER PAYABLES

	<u>End of period Mar 31 2023</u>	<u>End of period Mar 31 2022</u>
	PLN thousand	PLN thousand
Trade payables	71,746	71,230
Taxes (excluding corporate income tax) and social security contributions payable	4,381	6,960
Salaries and wages payable	2,170	2,818
Prepaid deliveries	13,358	1,459
Other liabilities and accruals, including:	20,435	16,012
accrued bonuses and overtime pay	13,443	9,951
accrued holiday entitlements	2,300	2,062
unbilled expenses	2,991	2,847
other liabilities	1,701	1,152
	<b>112,090</b>	<b>98,479</b>
including:		
non-current portion	-	-
current portion	112,090	98,479
	<b>112,090</b>	<b>98,479</b>

Trade payables are non-interest-bearing and typically mature in a period from 7 to 90 days. The Group 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>
Gain on disposal of property, plant and equipment	-	1,154
Grants for development projects	3,815	3,815
Other	204	224
	<b><u>4,019</u></b>	<b><u>5,193</u></b>
including:		
Non-current portion	3,465	3,953
Current portion	554	1,240
	<b><u>4,019</u></b>	<b><u>5,193</u></b>

The Parent 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 Parent received PLN 6,428 thousand, including PLN 556 thousand in the reporting period.

As at the date of these consolidated financial statements, the Parent complied with all the terms and conditions of the agreement.

## NOTE 25 – LEASES

The Group 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 Parent uses land held in perpetual usufruct.

Lease contracts for the means of transport did not include initial payment or purchase option clauses. Most leases for machinery and equipment contain purchase option clauses, with the purchase price set at 0.1% to 1% of the initial value of the leased asset. In this case, the purchased options are included in the valuation of the lease liabilities.

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>Exchange differences</u>	<u>As at Mar 31 2023</u>
Usufruct of land	349	-	-	-	43	-	306
Land	3,000	-	-	(3,000)	-	-	-
Buildings and structures	26,553	2,131	(169)	(12,210)	3,836	(35)	12,434
Machinery and equipment	10,016	1,376	-	(5,825)	1,900	(1)	3,666
Vehicles	1,928	834	50	-	1,170	(14)	1,628
Other	832	-	-	-	161	-	671
<b>Total</b>	<b>42,678</b>	<b>4,341</b>	<b>(119)</b>	<b>(21,035)</b>	<b>7,110</b>	<b>(50)</b>	<b>18,705</b>

	<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>Exchange differences</u>	<u>As at Mar 31 2022</u>
Usufruct of land	393	-	-	-	44	-	349
Land	3,000	-	-	-	-	-	3,000
Buildings and structures	26,935	2,296	1,732	-	3,655	(755)	26,553
Machinery and equipment	15,316	125	-	(3,463)	1,895	(67)	10,016
Vehicles	2,788	423	-	(250)	1,033	-	1,928
Other	1,014	-	-	(19)	163	-	832
<b>Total</b>	<b>49,446</b>	<b>2,844</b>	<b>1,732</b>	<b>(3,732)</b>	<b>6,790</b>	<b>(822)</b>	<b>42,678</b>

Change in right-of-use liabilities:

	<u>As at Apr 1 2022</u>	<u>New lease contracts</u>	<u>Contract modifications</u>	<u>Lease payments</u>	<u>Interest</u>	<u>Exchange differences</u>	<u>As at Mar 31 2023</u>
Usufruct of land	479	-	-	61	15	-	433
Land	1,211	-	-	1,211	-	-	-
Buildings and structures	18,414	2,131	(169)	8,257	727	244	13,090
Machinery and equipment	4,603	1,376	-	3,048	155	-	3,086
Vehicles	1,991	834	50	1,274	84	(8)	1,677
Other	288	-	-	266	1	-	23
<b>Total</b>	<b>26,986</b>	<b>4,341</b>	<b>(119)</b>	<b>14,117</b>	<b>982</b>	<b>236</b>	<b>18,309</b>

	<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>Exchange</u> <u>differences</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	16,816	2,295	1,732	2,913	682	(198)	18,414
Machinery and equipment	8,800	125	-	4,404	116	(34)	4,603
Vehicles	2,611	423	-	1,119	75	1	1,991
Other	552	-	-	264	-	-	288
<b>Total</b>	<b>30,737</b>	<b>2,843</b>	<b>1,732</b>	<b>9,238</b>	<b>1,143</b>	<b>(231)</b>	<b>26,986</b>

## NOTE 26 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

### Contingent assets

The parent 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 9 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 Parent's cassation complaints against the decision of the Director of the Tax Administration Chamber in Gdańsk. Currently, the Parent 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 Parent has no contingent liabilities.

The Parent 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 9 to these financial statements.) Pursuant to the Supreme Administrative Court's judgment, the Company's case was re-examined by the Gdańsk Province Tax Office 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 Parent's tax liability for the period became statute-barred. It therefore vacated the decision of the first instance authority and discontinued the proceedings.

Other than those described above, the Group does not have any material contingent assets or liabilities that are not recognized in the financial statements and, if recognised, would result in inflows or outflows of economic benefits.

## NOTE 27 – RELATED PARTIES

### Identification of related parties

#### 1. Major shareholders

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

#### 2. Other related parties

Other related parties to the Group include members of the management and supervisory bodies of the Parent and its subsidiaries (including directors), as well as those who perform specific functions within Group companies, 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 Parent and its subsidiaries hold management positions or are shareholders.

The Group does not have any post-employment benefit plans for employees of affiliated entities of the Group.

### Equity attributable to owners of the Parent

In the periods covered by these financial statements, related-party transactions included trade transactions entered into by the Parent with members of the Parent's Management Board and members of their families. The value and substance of the transactions are presented in the table below:

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

The transactions shown above involved the recharging of costs incurred.

## Transactions with other entities

### 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:

<u>Related party</u>	<u>Year</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Receivables from related parties</u>	<u>Liabilities to related parties</u>
		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 Parent. The remuneration provided to this group of personnel, categorised by type of benefits, is presented below.

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

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 – Mar 31 2023</u>	<u>Apr 1 2021 – Mar 31 2022</u>
	PLN thousand	PLN thousand
<b>Management Board:</b>	<b>2,153</b>	<b>1,982</b>
- Krzysztof Krempeć	667	764
- Jakub Lipiński	716	608
- Tomasz Kamiński	770	610
<b>Supervisory Board</b>	<b>525</b>	<b>476</b>
- 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
<b>Senior officers</b>	<b>3,448</b>	<b>2,026</b>
	<b>6,126</b>	<b>4,484</b>

Additionally, during the reporting period, Mr. Jakub Lipinski received remuneration amounting to PLN 12 thousand for his service as a member of the management board of the subsidiary, MERCOR Centrum Usług Wspólnych Sp. z o.o.

The Parent 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.

Costs of the scheme are recognised as salaries and wages, while liabilities are disclosed in the statement of financial position as 'Other liabilities and accruals'.

## NOTE 28 – FINANCIAL INSTRUMENTS

The main financial instruments used by the Group include borrowings (Note 21), cash and deposits (Note 19), receivables (Note 17), liabilities (Note 23), and interest rate derivatives (SWAP). The primary purpose of these financial instruments is twofold: firstly, to secure funding for the Group's ongoing operations, and secondly, to invest any cash surplus in an ad hoc manner. In addition to the aforementioned instruments, the Group 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 Group's business.

The Group 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 finance lease liabilities. Due to the nature of lease liabilities, their entire balance is be classified as fixed-rate liabilities. Therefore, with respect to these instruments, the Group is not directly exposed to interest rate risk. Bank borrowings acquired by the Group are subject to interest at variable rates based on prevailing local

interbank market conditions. As a consequence, the Group is exposed to interest rate risk. However, the Group does not use any instruments to hedge the risk.

With respect to currency risk, the Group's exposure to this type of risk arises from sale or purchase transactions conducted in currencies other than its functional currency. The Group does not engage in any investment activities that would expose it to currency risk. During the reporting period, the Group used forward contracts as hedging instruments. Exchange differences arising from operating activities are recognized as either finance costs or income, as appropriate. The Group monitors currency risk for both on- and off-balance-sheet items.

Throughout the reporting period, the Group 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 Group's exposure to significant bad debt risk remains immaterial due to ongoing monitoring of accounts receivable balances and coverage provided by insurance. The Group's other financial assets, such as cash, deposits, and investments in other financial instruments, primarily expose the Group 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 carrying amounts disclosed in the financial statements.

#### Net carrying amount of categories and classes of financial instruments

	<u>End of period Mar 31</u> <u>2023</u>	<u>End of period</u> <u>Mar 31 2022</u>
	PLN thousand	PLN thousand
<b>Classes of financial instruments</b>		
Security deposits receivable	14,009	14,012
Trade receivables	109,696	102,666
Contract assets	27,913	21,214
Cash and cash equivalents	29,248	19,939
Forward hedging transactions	-	-
<b>Total assets</b>	<b>180,866</b>	<b>157,831</b>
Borrowings	78,014	89,603
Trade payables	71,746	71,230
Contract liabilities	2,240	12,970
Forward hedging transactions	21	156
Right-of-use liabilities	18,309	26,986
<b>Total liabilities</b>	<b>170,330</b>	<b>200,945</b>

<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	measured at amortised cost
	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)
<b>Non-current assets</b>	<b>9,665</b>	<b>9,665</b>	-	-	<b>9,665</b>
Trade receivables and contract receivables	9,665	9,665	-	-	9,665
<b>Current liabilities</b>	<b>171,201</b>	<b>171,201</b>	-	-	<b>171,201</b>
Trade receivables and contract receivables	141,953	141,953	-	-	141,953
Cash and cash equivalents	29,248	29,248	-	-	29,248
Derivative financial instruments	-	-	-	-	-
<b>Total</b>	<b>180,866</b>	<b>180,866</b>	-	-	<b>180,866</b>

<u>End of period Mar 31 2022</u>	fair value	carrying amount	measured at fair value through profit or loss	measured at fair value with changes to equity	measured at amortised cost
	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)	(PLN thousand)
<b>Non-current assets</b>	<b>9,153</b>	<b>9,153</b>	-	-	<b>9,153</b>
Trade receivables and contract receivables	9,153	9,153	-	-	9,153
<b>Current liabilities</b>	<b>148,678</b>	<b>148,678</b>	-	-	<b>148,678</b>
Trade receivables and contract receivables	128,739	128,739	-	-	128,739
Cash and cash equivalents	19,939	19,939	-	-	19,939
Derivative financial instruments	-	-	-	-	-
<b>Total</b>	<b>157,831</b>	<b>157,831</b>	-	-	<b>157,831</b>

<u>End of period Mar 31 2023</u>	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)
<b>Non-current liabilities</b>	<b>82,131</b>	<b>82,131</b>	-	<b>82,131</b>	-
Borrowings	67,762	67,762	-	67,762	-
Right-of-use liabilities	14,369	14,369	-	14,369	-
<b>Current liabilities</b>	<b>88,199</b>	<b>88,199</b>	<b>21</b>	<b>88,178</b>	-
Borrowings	10,252	10,252	-	10,252	-
Trade payables and contract payables	73,986	73,986	-	73,986	-
Right-of-use liabilities	3,940	3,940	-	3,940	-
Derivative financial instruments	21	21	21	-	-
<b>Total</b>	<b>170,330</b>	<b>170,330</b>	<b>21</b>	<b>170,309</b>	-

<u>End of period Mar 31 2022</u>	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)
<b>Non-current liabilities</b>	<b>93,020</b>	<b>93,020</b>	-	<b>93,020</b>	-
Borrowings	76,150	76,150	-	76,150	-
Right-of-use liabilities	16,870	16,870	-	16,870	-
<b>Current liabilities</b>	<b>107,925</b>	<b>107,925</b>	<b>156</b>	<b>107,769</b>	-
Borrowings	13,453	13,453	-	13,453	-
Trade payables and contract payables	84,200	84,200	-	84,200	-
Right-of-use liabilities	10,116	10,116	-	10,116	-
Derivative financial instruments	156	156	156	-	-
<b>Total</b>	<b>200,945</b>	<b>200,945</b>	<b>156</b>	<b>200,789</b>	-

#### 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 Group 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 Group.

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

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

#### Security for liabilities

The value of collateral established on the Group's assets as at the reporting date is presented below:

	<u>End of</u>	<u>End of</u>
	<u>period Mar</u>	<u>period Mar</u>
	<u>31 2023</u>	<u>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
<b>Total assets pledged as security for liabilities</b>	<b>114,806</b>	<b>122,217</b>

-

### **Net gains or losses on financial assets and liabilities**

	<u>For period</u> <u>Apr 1 2022 – Mar</u> <u>31 2023</u>	<u>For period</u> <u>Apr 1 2021</u> <u>– Mar 31</u> <u>2022</u>
	PLN thousand	PLN thousand
Loans and receivables	842	598
- accrued interest on deposits	515	112
- accrued interest on late payment	85	759
- expected credit losses	242	(273)
Cash and cash equivalents (exchange differences)	-	-
Positive valuation of derivative instruments	-	-
Financial liabilities measured at amortised cost	(8,487)	(3,362)
- exchange differences on liabilities	(153)	44
- interest on bank borrowings	(5,681)	(1,768)
- interest on late payment	(49)	(13)
- interest on leases	(2,070)	(1,143)
- commission fees on bank borrowings and guarantees	(534)	(482)
Negative valuation of derivative instruments	(21)	(156)
<b>Total</b>	<b>(7,666)</b>	<b>(2,920)</b>

### **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 Group 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
<b>Financial assets</b>							
Cash and cash equivalents	29,248	-	-	(5)	-	5	-
Trade and other receivables	109,696	-	-	(744)	-	744	-
Currency forward contracts	-	-	-	-	-	-	-
<b>Effect on financial assets before tax</b>	-	-	-	<b>(749)</b>	-	<b>749</b>	-
Tax (19%)	-	-	-	142	-	(142)	-
<b>Effect on financial assets after tax</b>	-	-	-	<b>(607)</b>	-	<b>607</b>	-
<b>Financial liabilities</b>							
Borrowings	78,014	(235)	235	1,929	-	(1,929)	-
Trade and other payables	112,090	-	-	702	-	(702)	-
Currency forward contracts	21	-	-	(1)	-	1	-
<b>Effect on financial liabilities before tax</b>	-	<b>(235)</b>	<b>235</b>	<b>2,630</b>	-	<b>(2,630)</b>	-
Tax (19%)	-	45	(45)	(500)	-	500	-
<b>Effect on financial liabilities after tax</b>	-	<b>(190)</b>	<b>190</b>	<b>2,130</b>	-	<b>(2,130)</b>	-
<b>Total</b>	-	<b>(190)</b>	<b>190</b>	<b>1,523</b>	-	<b>(1,523)</b>	-

### Interest rate risk

As of March 31st 2023, the Group's net profit would be lower by PLN 190 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 190 thousand higher.

### Currency risk

As of March 31st 2023, the Group'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 Group 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 Group has adopted an active policy of hedging such exposures by entering into forward contracts.

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:

	<u>End of period Mar 31 2023</u>	<u>End of period Mar 31 2022</u>	<u>End of period Mar 31 2023</u>	<u>End of period 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 Group.

	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</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 Group 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 Group uses overdraft facilities to ensure it satisfies its payment obligations in a timely manner.

The Management Board of the Parent reviews profitability and working capital ratios where there are negative deviations from levels assumed to be standard thresholds. As of the reporting date, the most significant impact on these ratios was attributed to the use of borrowings by the parent, primarily consisting of short-term working capital facilities.

Maturity of financial liabilities as of the reporting date 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	26,504	25,709
From 1 to 3 months	48,177	64,383
From 3 months to 1 year	13,497	17,677
Over 1 year	82,131	93,020
<b>Total liabilities</b>	<b>170,309</b>	<b>200,789</b>

### Credit risk

The Group 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 as allowed under the respective contracts, the Group 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 Group. The level of receivables from any individual counterparty does not exceed 10% of the total receivables.

For trade receivables, the Group 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 Group. This mechanism enables the Group 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 Loss allowance</u>	<u>Total loss allowance</u>	<u>Net amount</u>
		<u>Weighted average ECL</u>	<u>Expected credit loss</u>			
	PLN thousand	%	PLN thousand	PLN thousand	PLN thousand	PLN thousand
not past due	72,774	0.47	343	-	343	72,431
past due up to 30 days	19,633	1.27	249	-	249	19,384
past due 31–60 days	2,207	13.09	289	-	289	1,918
past due 61–90 days	1,000	49.80	498	-	498	502
past due over 90 days	14,367	25.62	3,681	3,058	6,739	7,628
<b>Total</b>	<b>109,981</b>		<b>5,060</b>	<b>3,058</b>	<b>8,118</b>	<b>101,863</b>

Receivables under retained security deposits

	<u>Gross amount</u>	<u>Matrix approach</u>		<u>Case-by-case approach Loss allowance</u>	<u>Total loss allowance</u>	<u>Net amount</u>
		<u>Weighted average ECL</u>	<u>Expected credit loss</u>			
	PLN thousand	%	PLN thousand	PLN thousand	PLN thousand	PLN thousand
not past due	12,626	2.45	309	-	309	12,317
past due up to 30 days	210	6.19	13	-	13	197
past due 31–60 days	243	25.1	61	-	61	182
past due 61–90 days	205	17.56	36	-	36	169
past due over 90 days	2,437	17.56	1,293	-	1,293	1,144
<b>Total</b>	<b>15,721</b>		<b>1,712</b>	-	<b>1,712</b>	<b>14,009</b>

The amount of expected credit losses, calculated using both the matrix and case-by-case approach as of March 31st 2022, is presented in the table below.

Trade receivables

	<u>Gross amount</u>	<u>Matrix approach</u>		<u>Case-by-case approach Loss allowance</u>	<u>Total loss allowance</u>	<u>Net amount</u>
		<u>Weighted average ECL</u>	<u>Expected credit loss</u>			
	PLN thousand	%	PLN thousand	PLN thousand	PLN thousand	PLN thousand
not past due	81,807	0.49	398	-	398	81,409
past due up to 30 days	13,015	2.08	271	-	271	12,744
past due 31–60 days	1,977	16.79	332	-	332	1,645
past due 61–90 days	2,243	24.88	558	-	558	1,685
past due over 90 days	11,063	35.27	3,902	2,696	6,598	4,465
<b>Total</b>	<b>110,105</b>		<b>5,461</b>	<b>2,696</b>	<b>8,157</b>	<b>101,948</b>



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
		%	PLN thousand	PLN thousand		
not past due	7,873	5.80	457	-	457	7,416
past due up to 30 days	15	20.00	3	-	3	12
past due 31–60 days	185	19.46	36	-	36	149
past due 61–90 days	244	22.13	54	-	54	190
past due over 90 days	1,799	25.01	450	501	951	848
<b>Total</b>	<b>10,116</b>		<b>1,000</b>	<b>501</b>	<b>1,501</b>	<b>8,615</b>

**Capital management**

The Group has established a capital management policy with the primary objective of ensuring long-term liquidity. To achieve this objective, the Group 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. Equity comprises both equity attributable to shareholders of the Parent and the value of non-controlling interests.

**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 Parent's share capital in connection with an issue of ordinary bearer shares. The scheme has not been launched yet, and as of now, no agreement has been signed as part of the scheme, nor has a list of eligible scheme participants been determined.

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

## NOTE 30 – AUDITOR'S FEES

On October 19th 2020, the Company entered into an auditor engagement letter providing for:

- audit of the full-year separate and consolidated financial statements for the financial years ended March 31st 2021, March 31st 2022, March 31st 2023, March 31st 2024 and March 31st 2025;
- review of the interim condensed separate and consolidated financial statements for the six months ended September 30th 2020, September 30th 2021, September 30th 2022, September 30th 2023 and September 30th 2024;
- review of the subsidiary Mercor Proof LLC's consolidation package for the 12 months ended March 31st 2021, March 31st 2022, March 31st 2023, March 31st 2024 and March 31st 2025, and presentation of a separate report,

with Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Resolutions to appoint the auditor and execute the amendment to the engagement letter were passed by the Supervisory Board of MERCOR S.A. as the competent corporate body under Art. 12.3.b of the Company's Articles of Association.

It was the first time that the entity was engaged by the Company.

The audit firm's fees are presented below:

	<u>2022/2023</u>	<u>2021/2022</u>
	(PLN)	(PLN)
Audit of separate full-year financial statements	115,000	60,889
Audit of consolidated full-year financial statements of the Group	115,000	60,889
Review of half-year condensed separate financial statements	38,951	38,951
Review of half-year condensed consolidated financial statements of the Group	38,951	38,951
<b>Total audit firm's fees</b>	<b>307,902</b>	<b>199,680</b>

## NOTE 31 – DIFFERENCES RELATIVE TO PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS

There were no differences with respect to the previously published financial statements.

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

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Management Board of the Parent  
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