



MERCOR Group

Interim financial statements for the three months ended June 30th 2023

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

Gdańsk, August 18th 2023

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Consolidated financial highlights

Financial highlights	PLN '000		EUR '000	
	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Revenue	152,206	135,010	33,632	29,109
Operating profit	15,523	16,923	3,430	3,649
Profit before tax	15,565	14,728	3,439	3,175
Net profit	12,649	11,096	2,795	2,392
Net profit attributable to owners of the Parent	11,733	10,740	2,593	2,316
Net cash provided by (used in) operating activities	3,332	15,780	736	3,402
Net cash provided by (used in) investing activities	(960)	(7,809)	(212)	(1,684)
Net cash provided by (used in) financing activities	(6,668)	1,213	(1,473)	262
Total net cash flows	(4,296)	9,184	(949)	1,980
Total assets	450,046	447,658	101,127	95,745
Non-current liabilities	82,771	86,202	18,599	18,437
Current liabilities	140,192	135,660	31,502	29,015
Equity	227,083	225,796	51,026	48,293
Share capital	3,892	3,915	875	837
Equity attributable to owners of the Parent	216,215	213,695	48,584	45,705
Number of shares	15,529,151	15,577,410	15,529,151	15,577,410
Earnings per share	0.76	0.69	0.17	0.15
Book value per share	13.92	13.75	3.13	2.94

Separate financial highlights

Financial highlights	PLN '000		EUR '000	
	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Revenue	93,493	81,122	20,659	17,490
Operating profit	7,829	10,371	1,730	2,236
Profit before tax	9,048	9,415	1,999	2,030
Net profit	7,240	7,514	1,600	1,620
Net cash provided by (used in) operating activities	5,737	4,156	1,267	896
Net cash provided by (used in) investing activities	(151)	(4,584)	(33)	(988)
Net cash provided by (used in) financing activities	(3,819)	197	(844)	42
Total net cash flows	1,767	(231)	390	(50)
Total assets	324,922	314,316	73,011	67,226
Non-current liabilities	75,953	77,622	17,067	16,802
Current liabilities	82,773	77,536	18,599	16,583
Equity	166,196	159,158	37,345	34,041
Share capital	3,892	3,915	875	837
Number of shares	15,529,151	15,577,410	15,529,151	15,577,410
Earnings per share	0.47	0.48	0.10	0.10
Book value per share	10.70	10.24	2.40	2.19

Items of the statement of financial position have been translated into the euro at the mid rate quoted by the National Bank of Poland for the reporting dates, i.e. 4.4503 for June 30th 2023 and 4.6755 for March 31st 2023.

Items of the statement of comprehensive income, statement of changes in equity and statement of cash flows have been translated into the euro at the arithmetic mean of the mid rates quoted by the National Bank of Poland for the last days of the months covered by this report, i.e. 4.5256 for the period April 1st–June 30th 2023, and 4.6381 for the period April 1st–June 30th 2022.

Interim condensed consolidated statement of comprehensive income

	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
	unaudited	unaudited
Revenue	152,206	135,010
Cost of sales	113,524	97,842
Gross profit	38,682	37,168
Other income	432	299
Selling expenses	12,997	11,211
Administrative expenses	10,334	8,722
Other expenses	456	260
(Expected credit loss)/reversal of expected credit loss	196	(351)
Operating profit	15,523	16,923
Finance income	2,453	969
Finance costs	2,411	2,565
Share of profit (loss) of equity-accounted investees	-	(599)
Profit before tax	15,565	14,728
Income tax	2,916	3,632
Net profit	12,649	11,096
<i>Attributable to:</i>		
<i>owners of the Parent</i>	11,733	10,740
<i>non-controlling interests</i>	916	356
	12,649	11,096
Other comprehensive income		
Exchange differences from translation of foreign operations	(11,160)	7,050
Total comprehensive income	1,489	18,146
<i>Attributable to:</i>		
<i>owners of the Parent</i>	2,722	13,685
<i>non-controlling interests</i>	(1,233)	4,461
	1,489	18,146
Earnings/(loss) per share:		
Basic	0.76	0.69
Diluted	0.76	0.69

Interim consolidated statement of financial position

Assets

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
Non-current assets		
Goodwill	49,305	51,613
Other intangible assets	26,674	26,866
Property, plant and equipment	78,384	79,424
Right-of-use assets	17,558	18,705
Deferred tax assets	4,638	4,446
Other financial assets	3,843	3,767
Equity-accounted investees	493	493
Long-term security deposits receivable	9,609	9,665
Other non-current assets	391	297
	190,895	195,276
Current assets		
Inventories	77,622	77,415
Financial assets	-	-
Trade and other receivables	119,092	109,696
Contract receivables	30,269	27,913
Short-term security deposits receivable	4,090	4,344
Forward contracts	53	-
Current tax assets	547	796
Other current assets	2,526	2,970
Cash and cash equivalents	24,952	29,248
	259,151	252,382
Total assets	450,046	447,658

Equity and liabilities

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
	unaudited	
Equity		
Share capital	3,892	3,915
Share premium	106,202	106,202
Share buyback reserve	6,183	7,245
Merger reserve	857	857
Translation reserve	(6,596)	2,415
Treasury shares	(624)	(1,507)
Retained earnings	106,301	94,568
Equity attributable to owners of the Parent	216,215	213,695
Non-controlling interests	10,868	12,101
Total equity	227,083	225,796
Non-current liabilities		
Long-term borrowings	65,312	67,762
Deferred tax liability	50	51
Provisions for liabilities	555	555
Deferred income	3,703	3,465
Right-of-use liabilities	13,151	14,369
	82,771	86,202
Current liabilities		
Short-term borrowings	9,345	10,252
Trade and other payables	117,085	112,090
Contract liabilities	2,916	2,240
Income tax payable	1,450	2,393
Forward contracts	1	21
Provisions for liabilities	4,148	4,170
Deferred income	554	554
Right-of-use liabilities	4,693	3,940
	140,192	135,660
Total equity and liabilities	450,046	447,658

Interim condensed consolidated statement of changes in equity

	Share capital	Share premium	Share buyback reserve	Merger reserve	Translation reserve	Treasury shares	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
As at Apr 1 2022	3,915	106,202	7,245	857	4,641	(922)	62,738	184,676	7,021	191,697
Net profit/(loss) for period	-	-	-	-	-	-	10,740	10,740	356	11,096
Other comprehensive income	-	-	-	-	2,945	-	-	2,945	4,105	7,050
Comprehensive income for period	-	-	-	-	2,945	-	10,740	13,685	4,461	18,146
Dividend payment	-	-	-	-	-	-	-	-	-	-
Utilisation of capital reserve (buyback of shares)	-	-	-	-	-	-	-	-	-	-
Buyback of shares	-	-	-	-	-	(59)	-	(59)	-	(59)
Transactions with owners recognised in equity	-	-	-	-	-	(59)	-	(59)	-	(59)
As at Jun 30 2022	3,915	106,202	7,245	857	7,586	(981)	73,478	198,302	11,482	209,784
As at Apr 1 2023	3,915	106,202	7,245	857	2,415	(1,507)	94,568	213,695	12,101	225,796
Net profit/(loss) for period	-	-	-	-	-	-	11,733	11,733	916	12,649
Other comprehensive income	-	-	-	-	(9,011)	-	-	(9,011)	(2,149)	(11,160)
Comprehensive income for period	-	-	-	-	(9,011)	-	11,733	2,722	(1,233)	1,489
Dividend payment	-	-	-	-	-	-	-	-	-	-
Cancellation of treasury shares	(23)	-	(1,062)	-	-	1,085	-	-	-	-
Buyback of shares	-	-	-	-	-	(202)	-	(202)	-	(202)
Transactions with owners recognised in equity	(23)	-	(1,062)	-	-	883	-	(202)	-	(202)
As at Jun 30 2023	3,892	106,202	6,183	857	(6,596)	(624)	106,301	216,215	10,868	227,083

Interim condensed consolidated statement of cash flows

	<u>Apr 1–Jun 30 2023</u>	<u>Apr 1–Jun 30 2022</u>
	unaudited	unaudited
<i>Operating activities</i>		
Profit (loss) before tax	15,565	14,728
Adjustments for:		
Depreciation and amortisation	4,966	4,454
Interest accrued	1,497	1,819
(Gains)/losses on investing activities	(237)	538
Change in inventories	(207)	(17,742)
Change in receivables	(9,139)	1,701
Change in liabilities and provisions	4,948	4,609
Change in contract assets and liabilities	(1,680)	2,103
Change in other assets	2,582	353
Other adjustments (exchange differences on consolidation)	(11,160)	7,050
<i>Total adjustments</i>	<i>(8,430)</i>	<i>4,885</i>
Income tax paid	(3,803)	(3,833)
Net cash provided by (used in) operating activities	3,332	15,780
<i>Investing activities</i>		
Purchase of property, plant and equipment	(1,203)	(6,863)
Loans	-	(1,300)
Proceeds from sale of property, plant and equipment	-	61
Grants for development projects	243	293
Net cash provided by (used in) investing activities	(960)	(7,809)
<i>Financing activities</i>		
Increase in (repayment of) borrowings	(3,357)	4,678
Payment of right-of-use liabilities	(1,612)	(1,587)
Buyback of shares	(202)	(59)
Dividend paid	-	-
Interest paid	(1,497)	(1,819)
Net cash provided by (used in) financing activities	(6,668)	1,213
Change in cash	(4,296)	9,184
Cash at beginning of period	29,248	19,939
Cash at end of period	24,952	29,123

Interim condensed separate statement of comprehensive income

	<u>Apr 1–Jun 30 2023</u>	<u>Apr 1–Jun 30 2022</u>
	unaudited	unaudited
Revenue	93,493	81,122
Cost of sales	74,435	60,928
Gross profit	19,058	20,194
Other income	258	61
Selling expenses	6,625	5,782
Administrative expenses	4,917	3,745
Other expenses	141	6
(Expected credit loss)/reversal of expected credit loss	196	(351)
Operating profit	7,829	10,371
Finance income	2,615	1,183
Finance costs	1,396	2,139
Profit before tax	9,048	9,415
Income tax	1,808	1,901
Net profit	7,240	7,514
Net comprehensive income	7,240	7,514
Earnings per share:		
Basic	0.47	0.48
Diluted	0.47	0.48

Interim condensed separate statement of financial position

Assets

	End of period Jun 30 2023	End of period Mar 31 2023
	Unaudited	
Non-current assets		
Intangible assets	13,215	13,456
Property, plant and equipment	62,458	62,430
Right-of-use assets	6,717	6,874
Other financial assets	102,060	102,618
Deferred tax assets	3,139	2,421
Long-term security deposits receivable	3,156	2,833
Other non-current assets	108	124
	190,853	190,756
Current assets		
Inventories	42,238	40,227
Financial assets	-	-
Trade and other receivables	68,333	64,175
Contract assets	17,373	14,289
Short-term security deposits receivable	2,305	2,501
Forward contracts	53	-
Other current assets	1,874	2,242
Cash and cash equivalents	1,893	126
	134,069	123,560
Total assets	324,922	314,316

Equity and liabilities

	End of period Jun 30 2023	End of period Mar 31 2023
	unaudited	
Equity		
Share capital	3,892	3,915
Share premium	106,202	106,202
Capital reserves	7,040	8,102
Treasury shares	(624)	(1,507)
Retained earnings	49,686	42,446
Total equity	166,196	159,158
Non-current liabilities		
Long-term borrowings	67,631	69,959
Deferred tax liability	-	-
Provisions for liabilities	555	555
Deferred income	3,504	3,261
Right-of-use liabilities	4,263	3,847
	75,953	77,622
Current liabilities		
Short-term borrowings	3,351	2,864
Trade and other payables	69,753	65,707
Contract liabilities	2,916	2,240
Corporate income tax payable	1,004	1,029
Provisions for liabilities	3,231	3,231
Forward contracts	1	21
Deferred income	554	554
Right-of-use liabilities	1,963	1,890
	82,773	77,536
Total equity and liabilities	324,922	314,316

Interim condensed separate statement of changes in equity

	Share capital	Share premium	Capital reserves	Treasury shares	Retained earnings	Total equity
As at Apr 1 2022	3,915	106,202	8,102	(922)	28,382	145,679
Net profit/(loss) for period	-	-	-	-	7,514	7,514
Comprehensive income for period	-	-	-	-	7,514	7,514
Dividend paid	-	-	-	-	-	-
Recognition of capital reserve (buyback of shares)	-	-	-	-	-	-
Buyback of shares	-	-	-	(59)	-	(59)
Transactions with owners recognised in equity	-	-	-	(59)	-	(59)
As at Jun 30 2022	3,915	106,202	8,102	(981)	35,896	153,134
As at Apr 1 2023	3,915	106,202	8,102	(1,507)	42,446	159,158
Net profit/(loss) for period	-	-	-	-	7,240	7,240
Comprehensive income for period	-	-	-	-	7,240	7,240
Dividend paid	-	-	-	-	-	-
Cancellation of treasury shares	(23)	-	(1,062)	1,085	-	-
Buyback of shares	-	-	-	(202)	-	(202)
Transactions with owners recognised in equity	(23)	-	(1,062)	883	-	(202)
As at Jun 30 2023	3,892	106,202	7,040	(624)	49,686	166,196

Interim condensed separate statement of cash flows

	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
	unaudited	unaudited
<i>Operating activities</i>		
Profit (loss) before tax	9,048	9,415
Adjustments for:		
Depreciation and amortisation	3,016	2,543
Interest	1,118	1,466
Dividends received	-	(757)
(Gains)/losses on investing activities	(234)	(61)
Change in inventories	(2,011)	(6,536)
Change in receivables	(4,338)	3,773
Change in liabilities and provisions	4,026	(1,196)
Change in contract assets and liabilities	(2,408)	(2,300)
Change in other assets	71	(93)
<i>Total adjustments</i>	(760)	(3,161)
Income tax paid	(2,551)	(2,098)
Net cash provided by (used in) operating activities	5,737	4,156
<i>Investing activities</i>		
Purchase of property, plant and equipment	(1,499)	(1,510)
(Grant) repayment of loans	871	(4,185)
Proceeds from disposal of property, plant and equipment	234	61
Proceeds from disposal of financial assets	-	-
Dividends received	-	757
Grants for development projects	243	293
Net cash provided by (used in) investing activities	(151)	(4,584)
<i>Financing activities</i>		
Increase in/(repayment) of borrowings	(1,841)	2,682
Payment of right-of-use liabilities	(658)	(960)
Buyback of shares	(202)	(59)
Interest paid	(1,118)	(1,466)
Net cash provided by (used in) financing activities	(3,819)	197
Change in cash	1,767	(231)
Cash at beginning of period	126	1,389
Cash at end of period	1,893	1,158

Notes to the financial statements

General information about the Company and the Group

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

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

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

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

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

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

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

Management and supervisory bodies

Composition of the governing bodies of MERCOR S.A. as at June 30th 2023.

Management Board:

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

Supervisory Board:

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

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

On August 10th 2023, the Supervisory Board of the Company appointed the Company's Management Board for a new joint term of office, which will commence upon the conclusion of the Annual General Meeting convened, among others, to receive the Company's financial statements for the fiscal year ended March 31st 2023. Krzysztof Krempeć, Jakub Lipiński and Tomasz Kamiński were reappointed as President, First Vice President and Member of the Management Board, respectively.

Subsidiaries

As at June 30th 2023, the following entities were consolidated:

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

- ✓ MERCOR HD sp. z o.o. of Gdańsk (Poland)

In the three months ended June 30th 2023, there were no changes in the Group's structure.

Shareholding structure

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

Shareholder	As at the date of issue of this report				Change relative to data disclosed in the most recent periodic report			
	Number of shares	% ownership interest	Number of voting rights	% voting interest	Number of shares	% ownership interest	Number of voting rights	% voting interest
PERMAG sp. z o.o.	4,102,994	26.35%	4,102,994	26.35%	-	-	-	-
Bangtino Limited	3,675,502	23.61%	3,675,502 ⁽¹⁾	23.61%	-	-	-	-
Nationale Nederlanden Powszechnie Towarzystwo Emerytalne	1,454,465	9.34%	1,454,465 ⁽²⁾	9.34%	-	-	-	-
Otwarty Fundusz Emerytalny PZU Żłota Jesień	1,452,947	9.33%	1,452,947 ⁽³⁾	9.33%	-	-	-	-
N50 Cyprus Limited	1,250,854	8.03%	1,250,854	8.03%	-	-	-	-
PTE Allianz Polska S.A.	791,018	5.08%	791,018 ⁽⁴⁾	5.08%	-	-	-	-

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

Management Board:

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

Supervisory Board

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

Indirect holdings of Company shares by Management and Supervisory Board members

Shareholder	Member of the Supervisory Board, Member of the Management Board: holding Company shares indirectly – through a Shareholder / related parties	Number of shares held by the Shareholder in the Company's share capital as at the date of issue of this report
PERMAG sp. z o.o.	Krzysztof Krempeć	4,102,994
N50 Cyprus Limited	Marian Popinigis	1,250,854
Value Fund Poland Activist FIZ	Eryk Karski	562,098

Treasury shares

Pursuant to a resolution passed by the Extraordinary General Meeting in June 2020, the Company has been buying back own shares. As at June 30th 2023, the Company held 40,123 treasury shares, representing 0.25773% of its share capital and the total vote at its General Meeting.

Policies applied in the preparation of the financial statements

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

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

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

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

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

These interim condensed consolidated financial statements of the MERCOR Group covering the period ended June 30th 2023 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as endorsed by the European Union.

These interim condensed consolidated financial statements cover the three months ended June 30th 2023 and contain comparative data for the three months ended June 30th 2022 with respect to the statement of comprehensive income, statement of changes in equity and statement of cash flows, and comparative data as at March 31st 2023 with respect to the statement of financial position.

These interim condensed consolidated financial statements do not include all the information and disclosures required by IFRS in full-year financial statements and should be read in conjunction with the Group's consolidated financial statements for the financial year ended March 31st 2023.

Seasonality or cyclicity of the Group's operations

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

Segment information

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

Revenue

	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Revenue from sale of products	128,467	123,731
Revenue from sale of merchandise and materials	23,739	11,279
Total revenue	152,206	135,010

Revenue by geographical markets

	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Poland	74,751	73,609
Czech Republic and Slovakia	9,509	12,624
Spain	13,111	10,044
Ukraine	1,120	1,430
Romania	3,974	2,166
Russia	12,486	9,205
Hungary	10,232	10,311
UK	3,322	1,614
Other	23,701	14,007
Total revenue	152,206	135,010

Operating expenses

	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Cost of sales	113,524	97,842
Selling expenses	12,997	11,211
Administrative expenses	10,334	8,722
Total operating expenses	136,855	117,775
Depreciation and amortisation	4,966	4,454
Raw materials and consumables used	65,833	59,338
Services	21,501	20,675
Salaries and wages	20,259	18,339
Employee benefits	4,146	3,668
Taxes and charges	1,649	1,375
Other	1,903	1,703
Cost of merchandise and materials sold	16,598	8,223
Total expenses by nature	136,855	117,775

Other income

Other income		
	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Gain on disposal of property, plant and equipment	237	61
Grants for development projects	-	-
Liabilities cancelled	-	-
Compensation and penalties received	4	6
Other	191	232
Total	432	299

Other expenses		
	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Compensation and penalties	12	2
Litigation costs	27	3
Other	417	255
Total	456	260

Finance income and costs

Finance income		
	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Interest on cash and bank deposits	33	81
Interest on loans	79	47
Foreign exchange gains	2,313	802
Other income	28	39
Total	2,453	969

Finance costs		
	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Interest and commissions on bank borrowings	1,460	1,509
Interest on leases	264	410
Interest on liabilities	23	2
Foreign exchange losses	324	142
Other	340	502
Total	2,411	2,565

Income tax

The effective tax rate for the Group was 18.73%, slightly less than the nominal tax rate for the Parent. This was mainly attributable to different tax rates applicable in various tax jurisdictions in which MERCOR Group companies are located and to permanent differences between profit/(loss) before tax and taxable income.

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

The Head of the Gdańsk Province Tax Office in Gdańsk carried out an audit regarding the tax loss reported by the Parent for the 2012/2013 tax year in relation to latter's claim for a refund of PLN 5,138 thousand for overpaid income tax for that period. In July 2014, the Parent received a report summarising the audit findings, whereby the Head of the Gdańsk Province Tax Office questioned the loss reported on the tax return and the claimed tax overpayment. The Management Board of the Parent objected to the report, disputing the audit findings and maintaining its stance on the amount of tax loss incurred from the sale of shares in BEM Sp. z o.o. (PLN 76,139,865.64). 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 Company disagreed with the findings of the tax authority and, as a result, filed complaints against both decisions of the Director of the Tax Administration Chamber in Gdańsk with the Provincial Administrative Court in Gdańsk. The court scheduled the hearings to consider the complaints for February 28th 2023. The appealed decisions were revoked by the Provincial Administrative Court of Gdańsk on February 28th 2023. On July 25th 2023, the Director of the Tax Administration Chamber in Gdańsk issued decisions to rehear the appeals filed in May 2021 by September 3rd 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%).

Deferred tax assets and liabilities

Deferred tax is recognised for temporary differences between taxable income and profit/(loss) before tax disclosed in the financial statements. As at June 30th 2023 and March 31st 2023, deferred income tax arose from the items presented in the table below.

	Statement of financial position		Statement of comprehensive income	
	End of period Jun 30 2023	End of period Mar 31 2023	Apr 1–Jun 30 2023	Apr 1–Jun 30 2022
Differences between tax base and carrying amount of property, plant and equipment and intangible assets	2,622	2,837	215	484
Effect of measurement of long-term contracts	2,999	2,541	(458)	(249)
Exchange differences	10	1	(9)	(657)
Accrued interest	149	130	(19)	-
Deferred tax liability	5,780	5,509	(271)	(422)
Effect of measurement of long-term contracts	1,388	941	447	101
Differences between tax base and carrying amount of property, plant and equipment and intangible assets	109	23	86	(1)
Provisions for employee expenses and employee benefit obligations	4,062	4,169	(107)	221
Impairment losses on receivables	1,150	1,242	(92)	(141)
Write-downs of inventories	2,281	2,103	178	(167)
Unrealised exchange differences and measurement of forward contracts	-	9	(9)	(12)
Deferred income	-	-	-	-
Accrued interest	209	183	26	123
Tax loss asset	1,169	1,234	447	297
Deferred tax assets	10,368	9,904	976	421
<i>including:</i>				
deferred tax assets	4,638	4,446		
deferred tax liability	50	51		
Deferred tax expense			705	(1)

Intangible assets

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
Goodwill	49,305	51,613
Costs of completed development work	16,115	17,346
Capitalised costs of development work in progress	6,047	4,871
Concessions and licences	4,512	4,649
Total	75,979	78,479

Property, plant and equipment

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
Land	4,836	4,836
Buildings and structures	27,350	28,118
Machinery and equipment	39,138	40,580
Vehicles	2,468	2,584
Other property, plant and equipment	1,728	1,173
Property, plant and equipment	75,520	77,291
Property, plant and equipment under construction	2,079	1,332
Prepayments for property, plant and equipment	785	801
Total	78,384	79,424

Purchase and sale of material items property, plant and equipment

In the three months to June 30th 2023, the Company did not purchase or sell any material items of property, plant and equipment.

Borrowings

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
Borrowings from banks	74,657	77,946
Borrowings from financial institutions	-	68
Total	74,657	78,014
Non-current portion		
Borrowings from banks	65,312	67,762
Borrowings from financial institutions	-	-
Total	65,312	67,762
Current portion		
Borrowings from banks	9,345	10,184
Borrowings from financial institutions	-	68
Total	9,345	10,252
Borrowings maturing		
within 1 year	9,345	10,252
in 2 to 3 years	64,518	62,447
in 3 to 5 years	794	5,315
in over 5 years	-	-
Total	74,657	78,014

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

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
Borrowings in PLN	34,045	37,813
Borrowings in EUR	40,612	40,198
Total	74,657	78,014

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

In the three months to June 30th 2023, there were no defaults or material breaches under borrowing agreements.

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

In the three months to June 30th 2023, there were no atypical items that would affect the Issuer's assets, liabilities, equity, net profit, or cash flows.

Write-downs

Inventories

As at June 30th 2023, write-downs of inventories to net realisable value were PLN 13,167 thousand. In the reporting period, the Parent reversed write-downs recognised in previous periods for an amount of PLN 50 thousand, while the amount of write-downs recognised in the period was PLN 1,241 thousand.

Inventories at end of reporting period:

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>
Materials	52,350	50,203
Work in progress and semi-finished goods	11,753	7,461
Finished goods	26,686	31,136
Write-downs	(13,167)	(11,385)
Total	77,622	77,415

Receivables

	<u>End of period</u> <u>Jun 30 2023</u>	<u>End of period</u> <u>Mar 31 2023</u>	<u>Change in</u> <u>period</u>
Impairment losses on receivables	8,153	8,118	+35
Total	8,153	8,118	+35

Recognition, increase, use and reversal of provisions

	<u>Provision for</u> <u>employee</u> <u>benefit</u> <u>obligations</u>	<u>Provision for</u> <u>warranty</u> <u>repairs</u>	<u>Provision for</u> <u>expected</u> <u>losses</u>
Provisions as at Mar 31 2023	566	4,159	-
Provisions expensed	-	-	-
Use of provisions recognised in prior periods	-	-	-
Effect of exchange differences	-	(22)	-
Provisions as at Jun 30 2023	566	4,137	-

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

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

Financial instruments

In the three months to June 30th 2023, there were no changes in the method of measuring the fair value of financial instruments.

In the three months to June 30th 2023, there were no changes in the classification of financial assets resulting from a change in their purpose or use.

Contingent assets and liabilities

In the three months to June 30th 2023, there were no material changes in the Company's contingent assets or contingent liabilities.

Related party transactions

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

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

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

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

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

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

In the three months to June 30th 2023, there were no factors or events (including of non-recurring nature) which would have a material bearing on the condensed financial statements.

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

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

Dividend paid or declared

In accordance with draft resolution as attached to Current Report No. 47/2023 of August 11th 2023, the Company intends to allocate PLN 23,509,608.27 (twenty-three million, five hundred and nine thousand, six hundred and eight złotych, twenty-seven grosz) to dividend payments.

Management Board' position on the feasibility of published forecasts

No earnings guidance was published by the Company.

Material proceedings involving MERCOR S.A. or its subsidiaries

In the three months to June 30th 2023, there were no material proceedings pending against the Company or its subsidiaries.

Material settlements under court proceedings

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

Material achievements or failures and key events during the reporting period

In the three months to June 30th 2023, the Group earned revenue of PLN 152,206 thousand, a year-on-year increase of 12% from PLN 135,010 thousand. Sales on the Polish market grew by close to 2%. Foreign subsidiaries reported sales growth of over 30% in Spain, over 83% in Romania, and over 105% in the UK. Sales also expanded on the Russian market (by over 35%). A decline in sales was recorded on the Czech and Slovak markets (by close to 25%), on the Ukrainian market (by more than 21%), and on the Hungarian market (by nearly 1%).

In the three months ended June 30th 2023, operating profit before depreciation and amortisation was PLN 20,489 thousand compared with PLN 21,377 thousand in the corresponding period of the previous financial year, a decrease of 4%. Operating profit for the period was PLN 15,523 thousand, having dropped 8% year on year.

Net profit earned by the MERCOR Group in the three months to June 30th 2023 was PLN 12,649 thousand (three months to June 30th 2022: PLN 11,096 thousand).

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

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

Impact of the war in Ukraine on the business

In the opinion of MERCOR S.A.'s Management Board, the impact of the war in Ukraine on the Company and the Group's operations has remained consistent with the description in the full-year consolidated

financial statements for the period April 1st 2022–March 31st 2023. 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 release date of these financial statements and for the foreseeable future.

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

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

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

MANAGEMENT BOARD OF MERCOR S.A.:

Krzysztof Krempeć

Jakub Lipiński

Tomasz Kamiński

President
of the Management Board

First Vice President
of the Management Board

Member
of the Management Board

GDAŃSK, August 18th 2023